The Province of Alberta

IN THE MATTER OF THE PUBLIC INQUIRIES ACT

—and—

IN THE MATTER OF a Commission, dated the 12th day of October, A.D. 1938, to inquire into matters connected with Petroleum and Petroleum Products

Commissioners:

The Honourable MR. JUSTICE McGILLIVRAY
(*Chairman*)

—and—

L. R. LIPSETT, ESQ.

Session:

CALGARY, Alberta FEBRUARY 9th, 1939

VOLUME 33

INDEX

EXHIBITS

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WITNESSES:

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. . . . . .

T. E. BURNS, having been recalled, examined by Mr. Frawley said:

Q Mr. Burns, you will recall that on the 17th of January you were being examined about the allocation, the distribution of, of some at least, head office salaries which were received from Sarnia and we left it off I think because you were going to endeavour to ascertain the method of distributing those salaries among the Royalite and the other associate companies, have you been, are you able now to tell us something more in detail about that, Mr. Burns?

A Yes, with regard to the head office salaries, I presume you mean, Mr. Frawley, the salaries of the persons I stated were actively engaged in the company's operations?

Q Yes.

A I believe that is what I said.

Q Let me see if we can get it.

A And I believe we were discussing in particular Mr. John McLeod's salary.

Q We are talking about the date, let me get the beginning of it, actually your question was, on page 2269 of the transcript "We are charged, 'the whole answer is' "A. No, that is not true. We are charged. He is 'referring to Mr. McLeod' actually paid from Sarnia, Ontario, by Imperial Oil Limited, and we are charged with a debit note representing salaries of certain persons in our organization. I do not know what the individual salaries of those persons are

except my own. They are all paid by the Imperial. Mr. McLeod is paid, and I am paid, by the Imperial Oil Limited, Sarnia. This debit note comes into us monthly showing that sundry salaries have been paid to your account and we do make a split up of them to the Royalite. Q. MR. FRAWLEY: From whom does that debit note come? A. It comes from Imperial Oil Limited at Sarnia. Q. To whom does it come? A. It comes addressed to Mr. John McLeod, in person, confidentially. Q. But to what company, does it not come to some company, who credits Imperial, Sarnia? I am told that is the way to ask the question? A. It is addressed, I believe, to the North West Company".

That is the thing I am talking about?

A Yes, well I have brought a statement showing that the distribution of general administration expense for the year 1938 varied. In the month of January, 1938, 75.68% of it was charged to the Royalite Oil Company; 18.07% was charged to the North West Company; 2½% to Dalhousie Oil Company Limited; 2½% to Foothills Oil and Gas Company Limited and 1¼% to Southwest Petroleum Company Limited, the total of those equals 100%.

Q So that we may be very clear as to the amount we are talking about, what is the total of that amount or does that sheet just show the percentages?

A Just the percentages. In December 1938 those percentages were varied slightly; Royalite was charged with 78.17%; Northwest with 15.83%; Dalhousie 2½%; Foothills 2% and Southwest 1½%.

Q You have the intervening months have you, you just read two?

A No, I just have, I believe that was in reference to Mr. Commissioner Lipsett's request, I think he said something to the effect that I would not come down out of the blue and make a change suddenly.

Q Yes.

A And I drew it in that form to show that.

Q Well now first of all I wonder if you can, this is called the distribution of general administration expense and office expense?

A Yes.

Q Perhaps we had better file it Mr. Chairman and we can deal with it then?

THE CHAIRMAN: Yes.

(STATEMENT SHOWING DISTRIBUTION OF GENERAL ADMINISTRATION EXPENSE AND OFFICE EXPENSE FILED AS EXHIBIT "156")

THE CHAIRMAN: Just the two months?

MR. FRAWLEY: Yes, just January 1938 and December 1938.

Q MR. FRAWLEY: Now the general administration expense and office expense, and then a further sub-head "General Office" has been divided in a certain fashion in these two months, general administrative has been divided in a slightly different fashion in those two months but I would like to know, Mr. Burns, if I can, having in mind perhaps Mr. Morrison's report, what kind of expense that is, if it relates, even although you cannot accept the accuracy of Mr. Morrison's figures, will you look at page 22 of Exhibit "88", Mr. Morrison's report

[illegible]

[illegible]

A No, I don't have, I don't [illegible] was in [illegible]
Dr. Command nor [illegible] at, I don't [illegible] and
something to the effect [illegible] I would no[illegible]
[illegible] make a change [illegible].

[illegible]

[illegible]

[illegible] I wonder if you can, [illegible]
[illegible] the [illegible] [illegible] exa-
[illegible]

[illegible]

[illegible] we had better [illegible] [illegible] and we
[illegible] with it [illegible]

MR. [illegible]: [illegible]

[illegible]

[illegible]

[illegible]

[illegible]

and tell us if it is the expenses shown on that page which you say you have provided as indicated in Exhibit "156"?

A Well without having made some examination of the application of those figures I cannot say.

Q No. Mr. Morrison told us I think that those are the administrative and general expenses taken from the books of your company by his firm and we will have to be content with his statement in that respect but looking through the kind of items, either the kind of items that you have called here "General Administration Expense and Office Expense" in Exhibit "156"?

A I would say that with respect to the salaries of administrative officers and the salaries of administrative employees, that the percentages which are shown under general administration expense---

Q In Exhibit "156", what?

A Would show---

Q Would show the distribution?

A Would show the percentages which have been used to split those. You would understand that these would represent varying percentages and that with respect to the month of December 1938 which, by the way, is not included in this statement---

Q That is true, in this statement, page 22 of Mr. Morrison's report?

A Page 22 of Mr. Morrison's report, that that would be the method.

Q Yes.

A Employed.

Q Yes, I realize now the qualifications you are putting on it but I think we understand each other, you might take a look at page 22 of Mr. Morrison's report and take the first two items in the last column, the last column being the column for the period for the first nine months of 1938?

A That is correct.

Q Looking at the first two items which Mr. Morrison calls "Salaries, Administrative Officers, and salaries Employees, Administrative Offices" amounting roughly to $20,438.35 and $21,648.97, you say with respect of those two items we can, you are content that we should use your Exhibit "156" as indicating the manner in which those two items that I have just called off, had been distributed?

A Yes, this is---

Q Yes?

A These percentages do not apply because this merely gives two months in the whole of the year 1938.

Q In other words you would not want us to take 75.68% of those items of 20 thousand odd and 21 thousand odd that I have listed?

A No.

Q No, I understand.

A That portion of that which pertains to the month of January was split on the basis of 75.68%; in other words it contained the figure of $20,438.35.

Q Being salaries of administrative officers?

A Contains 71.68% of the amount charged with respect to the month of January, 1938.

Q Well can I put it this way, that in the month of, in the year 1938 you charged roughly speaking 75%, averaging the two items of 75 and 78, say roughly 76% of the salaries of the administrative officers of the Royalite Oil Company was charged to the Royalite Oil Company?

A That is correct.

Q And that 15% of those same salaries were charged to the Northwest Company?

A That is correct.

Q Well 15%, let us see, approximately 15% for the year was charged to the Northwest Company?

A Approximately that.

Q And 2½%, let us say approximately again if you like, was charged to the Dalhousie Company?

A Yes.

Q 2% was charged to the Foothills Company?

A Yes.

Q And 1¼% was charged to the Southwest Company, approximately?

A That is correct, approximately.

Q Now who made that distribution?

THE CHAIRMAN: That is for the whole year 1938, the witness speaks?

Q MR. FRAWLEY: You are speaking for the whole year 1938?

A Approximately, yes.

Q Yes, approximately, and who made, who determined the percentages, Mr. Burns, as shown on Exhibit "156"?

A It was done under my supervision. I would not like to say that I actually made the split, someone in my office did it and I would be responsible for it.

Q Well, now, I want to take a look, I want to see if, [illegible], in the year 1928 [illegible] average-ing the two items of $2.00 and $3.00, say roughly [illegible] valuation of the [illegible] the Joint Use [illegible] Company?

A [illegible]

Q [illegible] Northwest Company?

A Yes, to correct.

Q Well, [illegible] Northwest Company?

A [illegible]

Q And [illegible] observed to the [illegible]?

A Yes.

Q [illegible] Portland General Company?

A Yes.

Q And [illegible] the Northwest Company, [illegible]?

A [illegible]

Q Now who made such [illegible]?

MR. [illegible]:

[illegible]

[illegible]:

[illegible]?

A Approximately, yes.

A Yes, [illegible]

[illegible]

A [illegible]

[illegible]

Q Yes, I mean the only people who worked on it other than yourself were people under your direction, not people who are superior to you in the company's organization?

A That is correct.

Q Well now, so then you are, you take responsibility for it in other words?

A I do.

Q Now what principles guided you in arriving at the determination of the percentages, Mr. Burns?

A None other than our own best judgment.

Q That three-quarters of the salaries roughly, these salaries roughly were properly chargeable to the Royalite and 25% to its affiliated companies?

A That is correct.

Q Well now what did you have in mind, did you have in mind the amount of time which those officers spent in the business of the Royalite as against the time which they spent in the business of the affiliated companies?

A Yes.

Q I presume that it is a fact that if the Royalite Oil Company discontinued the Dalhousie Company for any purpose or the Dalhousie Company was cut from the Imperial organization, that it would not affect the amount of Mr. McLeod's salary one iota, would it?

A No, I think his salary would still be paid.

Q Yes, and similarly with respect to the Foothills Company?

A That is true.

Q Well can I go so far as to say that if the Northwest, The Dalhousie, the Foothills and the Southwest were all severed from the Imperial Organization it would not have

any affect on Mr. McLeod's salary, it would still go on, I suppose?

A His salary would still go on, he would still be required, either he or someone else in that capacity.

Q Yes, and it may not be a fair question at all, but is it fair to say that it would remain at the same amount, it is fair to say I presume that it would remain at the same amount?

A I would assume it with you.

Q Is it a fair assumption, you can assume it with me but it might be quite unfair to assume it, how does it strike you?

A Oh---

Q You know the relative importance of the work he is doing for the Royalite on the one hand and the affiliates on the other?

A Yes.

Q Do you agree with me or not?

A Well I am not quite sure that I understand your question, Mr. Frawley, you mean---

Q Well never mind. This Exhibit "156" does represent an attempt, may I take it, on your part to fit an allocation of the salaries to the facts with respect to the time spent by these officers in the business of the various companies, that is so is it not, Mr. Burns?

A I do not believe that the time spent by the various officers in the company could ever be accurately determined.

Q No. Well not practically perhaps?

A Not in fact determined.

Q But it has been an attempt to come as close to the facts in that respect as you can?

A Yes.

Q In fairness to all the companies?

A Yes, having regard to the scope of the operations of the several companies.

Q Yes, having regard to all of the factors which you should take into account, this Exhibit "156" represents your best attempt to allocate the salaries in accordance with the time spent by these officers on the business of the various companies?

A The time spent is an intangible thing.

Q Well---

A I would like to state it as perhaps my opinion as to the value of the services.

Q Yes, in other words, Mr. McLeod would not have to spend, whether Mr. McLeod spent a very great deal of time in the business of the Southwest you feel that it is fair that the Southwest should bear 1½ per cent of his salary, that is what this means doesn't it?

A Yes.

Q Exhibit "156"?

A Yes.

Q Well he surely would spend 1½% of his time during the whole of the year 1938 on the business of the Southwest Company, would you not think?

A Well I cannot say as to that.

Q Is it not, frankly is it not, because he spends very little of his time on the affairs of the Southwest Company as compared to the Royalite, that you have put it down to such a small percentage, namely 1½%

A Well I have regarded the scope of operations more, that is the proportion that the scope of operations of the

Southwest Petroleum bears to the total operations of the subsidiary companies which Mr. McLeod is here to administer.

Q Well that is pretty vague, you tell me that the time spent is intangible. The value of the man to the company I suggest to you is even more vague and intangible?

A Yes.

Q You see I just want to get the basis you used, Mr. Burns?

A I have given it to you, that it is my opinion.

Q Yes, your opinion, but you used a certain method, did you?

A No.

Q Well then if you did not use, you mean you did not use any method at all?

A No method at all.

Q Well how did you make it 75 to the Royalite instead of 50?

A Well I have been into that, it seems that about 10 years ago we did use, when we had many companies operating and we had drilling departments in all of those companies, we at that time used the labour ratio basis and certain percentages were then struck on a labour ratio basis as to the splitting of administrative expenses. Now this is merely an outcrop. As the operations have advanced in one company and diminished in another we have stuck to those same basic percentages all through those years but have augmented them with our own opinion as to the percentage to the operations of those companies. There is no basis in fact for the split. They are purely arbitrary.

Q THE CHAIRMAN: Mr. Burns, during the time when you used the labour ratio basis, what labour ratio basis did you use?

A The total number of men employed by the various companies.

Q Regardless of whether they were employed in operation or capital?

A Regardless of whether they were employed in operation or in capital.

Q MR. FRAWLEY: You say Exhibit "156" is merely the growth and extension of that labour ratio basis, without disturbing basically its application?

A That was the basis of it some years ago, that is correct.

Q I understand this is just a gradual outgrowth of it without any change basically.

THE CHAIRMAN: Augmented, he says, by his opinion as to the scope of the undertaking which each Company was carrying on.

Q MR. FRAWLEY: Mr. Burns, would you stand down for a minute. I want to file an Exhibit. I want Mr. Morrison to file an exhibit purely for the purposes of examining Mr. Burns upon it. If Mr. Nolan will be good enough to defer his own cross-examination of Mr. Burns until Mr. Morrison himself discusses it.

.....

KENNETH MORRISON,

recalled:-

Q BY MR. FRAWLEY: What have you there, Mr. Morrison please?

A I have prepared a statement in answer to a question by the Chairman as to what the cost of gathering and transporting oil would be for the nine months' period ended 30th September, 1938, as shown by the books of the Pipe Line Division of the Royalite Oil Company Limited. I have prepared a statement showing those figures.

Q When you say the books of the Pipe Line Division, what method of allocating indirect costs did you use there?

A Well these figures are shown by the books of the Pipe Line Division. I might explain.....

Q Already allocated?

A Already allocated. There is no allocation made by me at all. These statements are prepared from the actual books of the Pipe Line Division. In the year 1938 they have a ledger for the Pipe Line Division and these figures are taken from those books.

Q THE CHAIRMAN: The nine months you say?

A Yes.

MR. FRAWLEY: Nine months ending September 30th, 1938?

A That is correct.

DOCUMENT IN QUESTION IS NOW MARKED EXHIBIT "157".

MR. FRAWLEY: Now we can go into that further now that it is marked. I just want to ask Mr. Burns about it please?

.....

T. E. BURNS, recalled:-

Q BY MR. FRAWLEY: Mr. Burns, would you be good enough to look at Exhibit "157" and that has been taken from the books of your Company and my question is - you agree, I presume, with what Mr. Morrison has just said that in the books of the Company there is an actual allocation made for the year 1938 at any rate, of the costs properly in the opinion of the Company chargeable to the Pipe Line Division?

A No, I do not agree.

Q You do not agree with that?

A No.

Q Why do you not agree?

A Because in the memorandum record which we kept, which was only for to obtain ready information, and with regard to administration and general expense it contains only that portion which we considered to be represented by Mr. Coultis' salary and his secretary's, and a certain proportion of the Calgary office rent.

Q First, let us be clear about this, so that the Chairman will understand. I asked you if you agreed with the statement Mr. Morrison made that there was a record kept in 1938 which showed the allocation of the costs of the Pipe Line Division. You said you did not agree?

A It is not complete.

Q I presume that is why you do not agree?

A That is right.

Q Because it was not complete?

A It is a memorandum record only.

Q But there is such a book, a ledger, you call it a memorandum?

A I believe it is on ledger paper.

Q But you call it a memorandum record?

A That is all.

Q It does contain the amount of $17,820.17 as being the administrative and general expense chargeable, according to that record anyway, to the Pipe Line Division?

A That is correct.

Q My question is, that amount of $17,820.17 is what percentage of the total administrative and general expense of the Royalite Company for that same period?

A I cannot tell you that offhand. I can inform myself on that and get it for you.

Q First of all, being quite fair to you, is it a certain percentage? Is the figure of $17,820.17 a result figure applied by obtaining a certain percent - X per cent of - by taking X per cent of a figure which would be the total administrative and general expense of the Royalite Company for the same period?

A I would not say it was done on a percentage basis.

Q That is what I wanted to know. I rather gathered from what you said a minute ago it was not, but that you took Mr. Coultis' salary and his secretary's salary and a portion of the rent and added up some other figures and that is how the $17,820.17 was made up?

A That is correct.

Q I think perhaps the simplest way would be if you could give us a break-down of the $17,820.17?

A I have it here in a rough draft in pencil, that is all.

Q You read our minds. It is in pencil. Well I would

T. E. Burns.

not like to file that, but we might.....

THE CHAIRMAN: Well read it into the record whatever it is.

M. FRIPLEY: Royalite Oil Company Limited Administrative and General Expense, 1938, total at 30th September, that means the total for the first nine months I take it?

A That is correct.

Q This can go down in the form of a statement. It would be typed in statement form.

Salary of Manager	$ 6,432.79
Salary of employees	4,871.04
Travelling and other Expenses, Administrative Officers,	947.38
Professional fees and Expenses	2,964.76
Rent Administrative and General Offices	485.12
Repairs to Administrative and General Office furniture and appliances	169.94
Telephone and Telegraph	239.36
Postage and Excise stamps	48.04
Stationery and Office Supplies	322.09
Subscriptions and dues	268.41
Workmen's Compensation Board Accident Assessment,	478.43
Employees' Welfare Expenses	364.27
Miscellaneous	228.54
TOTAL	$17,820.17

Well, Mr. Burns, is the amount for instance, Subscriptions and Dues, $268.41, that would appear to be a percentage of some larger figure which the Company spent on subscriptions and dues, would it not?

A That may be, yes.

Q Yes. Well some of these other items, Employees' Welfare Expense of $364.27, would not that be a result figure after having applied a percentage?

A Yes.

Q And Workmen's Compensation Board, Accident assessment, $478.43, would that be in the same category?

A I believe that is an actual figure.

Q That is an actual figure you say?

A Yes, applicable to the Pipe Line Division.

Q To the Pipe Line Division alone?

A That is correct.

Q Stationery and Office Supplies $322.09. Is that a percentage figure or an actual figure?

A I would have to inform myself on that.

Q Postage and Excise Stamps $48.04?

A That would be a percentage figure.

Q Perhaps the simplest thing would be if you would be good enough, and if it is not too much trouble, to analyze the items making up the $17,820.17 and find which are percentage figures and then going further and finding out what the percentage applied was and using what methods. I think really we cannot usefully pursue that any further without that.

Q MR. COMMISSIONER LIPSETT: Is that figure of $17,820.17 on your Exhibit "157", is that the proportion charged to the Pipe Line Division of the two items on Page 22 of Mr. Morrison's report, namely Administrative Officers. $20,438.35, and Employees' Administrative Offices $21,648.97. They come to around $42,000.00, Mr. Burns, and I was wondering if the $17,820.17 was the portion of that charged to the Pipe Line?

A No, Mr. Morrison's figures have been arrived at on a completely different basis, Sir.

Q I see.

A Exhibit "157" is the actual allocation which we have

made. It does not include any proportion of the Administrative salaries other than Mr. Coultis, and in that statement we have attempted to put all of Mr. Coultis' salary to the Pipe Line Division. But in this.....

Q When you say "in this" you mean in.....

A In Mr. Morrison's statement in Exhibit "88", it represents Mr. Morrison's split of.....

MR. FRAWLEY: Oh no, Mr. Burns, that is the total. The only possible question about that is whether Mr. Morrison has got all the items. That is on Page 22 of Mr. Morrison's report, with one exception which you will see Professional Fees and Expenses which he had to estimate. This is not his estimate, but the Company's estimate $15,183.00.

A Yes. I would have to check these figures of Mr. Morrison's. I would not know about that.

THE CHAIRMAN: The witness says he will have to check them.

MR. FRAWLEY: I think it might be useful if you did, Mr. Burns?

A Very good.

Q Mr. Burns, in other years, looking at Exhibit "157", in other years did you have any similar allocation at all, or break-down - allocation to the Pipe Line Division?

A We kept no separate memorandum record.

Q You kept no separate memorandum record?

A No.

Q Such as you did in 1938?

A That is correct.

Q Let us understand about 1938. There was a real attempt -

a real attempt began in 1938 to make what you regarded as a fair allocation of the cost of operating the Pipe Line Division?

A No. An attempt was made merely to segregate the direct expenses so that we would have it for ready informative purposes.

Q Yes, I mean otherwise there would not be much point in making it. The Company might want to know or some other body interested in it might want to know what it cost to operate the Pipe Line Division?

A Yes, but there was not a complete record.

Q No. Just in what manner was it not complete, so we will understand each other?

A Well it was not intended to include any portion of Mr. McLeod's salary for example.

Q Well now, just take that. It is fair to include some portion of Mr. McLeod's salary is it not?

A Yes.

Q Why? If you know what I mean, why leave it out of that ledger?

A It was never necessary to do it.

Q It was not necessary to do it?

A Not in the memorandum ledger, no.

Q The memorandum ledger was for the purpose of informing you, just domestically, what it was costing you to operate the Pipe Line Division?

A That is correct.

Q You would never know - even your own people would never know if you did not include any part of Mr. McLeod's salary?

A Well we would use this record, these direct expenses

as a basis for supplying any information which we were requested to supply.

Q You did not rest with direct expenses? You have $17,000.00, nearly $18,000.00 of very obvious indirect expenses there, haven't you?

A No, not all indirect.

Q Well, you use the same language, administration and general expense?

A Yes. That is a convenient term, used throughout our accounting.

Q Mr. Coultis's salary would be a direct expense would it not?

A That is right, and it is included.

Q And it is included in the $17.000.00?

A That is right.

Q But apart from Mr. Coultis' salary the rest of it is what we have been calling throughout this Inquiry indirect expense, is it not?

A No. You will notice an item of almost $3000.00 there, professional fees and expenses.

Q Oh, that is Mr. Hill's bill?

A That is correct.

Q That was Pipe Line alone?

A That was Pipe Line alone.

Q In any event for the reasons you are now giving us, you do not, probably still do not and did not regard that memorandum record as you call it, a complete exhibition of the cost of operating the Pipe Line Division?

A That is correct. I do not regard it so.

Q And perhaps that is why both your accountants and Mr.

Morrison departed from the records of the Company, including the 1938 memorandum record you speak of in making their submissions to the Commission as to what in their respective views was the correct cost of operating the Pipe Line.

A No, I do not believe that was the reason.

Q Well what was the reason? They both departed from the records?

A Yes.

Q They have told us that was because - at least Mr. Taylor has told us and Mr. Maw, that he felt he had to do it to present a correct picture to the Commission as distinguished from the picture shown by the Company's books.

A Didn't they depart from the records mainly with regard to amortization of the Fixed Capital Assets of the Company.

Q And the distribution of the indirect costs, I think, all the way through. They departed from the records of the Company.

A There has been no distribution of indirect costs or a very great portion of them.

Q No. There had been some as is evidenced by the Jersey Statements. There had been some, incomplete as you say it is?

A Those are not the Company's books.

Q Well, taken from the Company's books, the Company's records. However, we won't quarrel about that. There was a departure for reasons good and sufficient for the witnesses, for departing from the Company's books so as to give a proper view of this Pipe Line Division

to the Commission. You will agree with that won't you?

A With regard to the amortization of the Fixed Capital assets there was a departure.

Q I am instructed, Mr. Burns, there was quite a lot of allocations of indirect expense in the Company's books, but that the Company stated they were not complete?

A I think what we stated and what I stated to you was that they perhaps did not represent any more than an arbitrary split made by someone.

Q Yes?

A Of the costs of certain utilities and offices, etc.

Q That is just what I mean. So that there was an arbitrary allocation in the books of the Company of certain indirect expenses?

A Of certain of the indirect expenses, that is particularly with regard to utilities where those have been used by more than one department.

Q That is all I am saying. In order to present a complete allocation of all the indirect expenses, it was necessary to build up a submission independent of what allocation had been made in the Company's books.

A You found it necessary, yes.

Q And so did your people. However. Now for years - that is, all you can say then about the attempt which the Company made to allocate indirect expenses in the years prior to 1938? I think I have said all I want to say or have asked you all I want to ask you about it. I think that is all, Mr. Burns. I told you last evening I would like Mr. Morrison to look at these budgets you filed yesterday and he has not this morning had an opportunity. There may not be anything to ask you

at all, but if there is you will be good enough to hold yourself available.

THE CHAIRMAN: Do you want this break-down from Mr. Burns that you were asking about?

MR. FRAWLEY: Yes, we do.

THE CHAIRMAN: Is there anything else Mr. Burns will be asked about?

MR. NOLAN: Can I know that so we can get him here and get this over with? Because you see it is difficult for me. We are running a business even at the present time, and I am very anxious not to dislocate it any more than I can help. I am very willing to come with my witnesses and if we could have a sort of an omnibus session of this Commission and gather in the loose ends and get them through, I think it would serve all our purposes.

MR. FRAWLEY: I may be doing it imperfectly but I am trying to do a hard job with a lot of loose ends.

THE CHAIRMAN: There is nothing you know about now. These things do crop up, I know. Is there anything else that Mr. Morrison has in mind from Mr. Burns now?

MR. FRAWLEY: Thank you, Mr. Chairman, we will just see if there is anything else. That is all, just those break-downs we asked this morning.

A I was asked for some information on the Toronto Office charges and I have come with that.

Q Thank you, Mr. Burns.

MR. NOLAN: It was a long time ago. It was a $3000.00 figure if my memory serves me.

T. E. Burns.

Q MR. FRAWLEY: It was $3,837.48. Have you got that, Mr. Burns?

A Yes. Those were mis-allocations.

Q That is the amount of the Toronto Office charge for the period ending 30th September 1938.

THE CHAIRMAN: Referred to where?

MR. FRAWLEY: Referred to on Page 22 of Mr. Morrison's report, Exhibit "88"?

A These were mistakes really made in the allocation. While the charges did emanate from Toronto, they should have been put in more correct accounts, under more correct sub-headings. The first item is $90.17 which is Expenses incurred by a man Mr. F. B. Bimel, who attended at Ottawa on some business of the Company. These are his travelling expenses.

Q Mr. Burns, may I suggest that you file that little statement showing that break-down. You were just going to read it into the record weren't you?

A That is all.

Q Well, this will do. I will offer this, Sir, as an exhibit.

DOCUMENT IN QUESTION IS NOW MARKED EXHIBIT "158".

MR. FRAWLEY: This document is dated at the office of the Royalite Company in Calgary on the 17th of January, 1939, in the form of a memorandum to Mr. Burns, showing how the item of $3837.48, shown on Page 22 of Exhibit "88", as Toronto Office charges, is made up. The first thing you say about it is that it was a charge emanating from the Toronto Office?

A That is correct.

Q And it was charged in whole to the Royalite Company?

A That is right.

Q And only a portion of it ultimately found its way as a charge to the Pipe Line Division?

A That is correct.

Q Then we will have the rest of it. The first item is $90.17. There are just the three items and we will read them in detail. The first item is Expenses Incurred by Mr. F. B. Bimel on our behalf at the Chateau Laurier, Ottawa. $90.17. The next item is $362.44, travelling expenses of Mr. and Mrs. K. H. Houston from London, Ontario, to Calgary. Note: This should properly have been charged to travelling expenses of employees and has been corrected. It would still be administrative and general expense but in a different column, that is all?

A That is correct.

Q And the last item, $3,384.87 production and research expenses through the engagement by Royalite of experts in the Standard Oil Development Company. Note: This should have been shown as Technical Research Expenses under Code A-6, and has been corrected. Those three items make up the total in question, $3,837.48?

A Yes.

Q Now is there a place for Technical and Research expense under the general heading of Administrative and General Expense? It should not have appeared under the heading Toronto Office charge?

A That is correct.

Q You are not able to say, using Page 22 of Mr. Morrison's

report, whatever classification it should have gone into I presume?

A No. I could have opened one.

Q Mr. COMMISSIONER LIPSETT: Just before you leave, Mr. Burns, this Exhibit "157" of Mr. Morrison's for the nine months ending 30th September, 1938, I know you have not had an opportunity of going through it, but I understand that that purports to be taken from the books of the Company as they appear on the books?

A Yes sir. And as I explained we did keep, beginning in 1938, we kept what I have referred to as a memorandum record of certain direct expenses, and this is a recapitulation.

Q I rather gathered you indicated there were some matters omitted from this that you think properly should be ~~included amongst costs~~ and expenses?

A That is correct. If I was asked to prepare a statement of the pipe line operating ~~costs for the year 1938,~~ I would augment it with certain other items.

(Go to Page 4042)

Q Well now would you, while you are making up those other things, would you just take this calculation, Exhibit "157", as your basis and give us a statement of what additional items should go into that or should be added to that to give a correct picture as appears in your books?

A Well that is a very large order, sir. First of all I would have to decide on what basis I could split the costs; secondly we would have to fix the life of the field or the useful life of the equipment to say what proper amortization figure should be used.

Q This shows the depreciation at 10% I take it?

A I believe it shows depreciation charges which have been actually booked, is that not so?

Q Well perhaps you would look into it, Mr. Burns, and I would be glad to have some alteration of addition to these figures which you think would be fair?

A I will be very glad to look into it.

THE CHAIRMAN: Any other questions?

MR. FRAWLEY: I have no more questions, sir.

THE CHAIRMAN: Do you want to ask something?

MR. PLOTKINS: Please Mr. Chairman, I would like to ask something.

Q MR. PLOTKINS: Mr. Burns, in directing the accounting procedure in the Royalite organization, are you guided by any definite angles or instructions from either Imperial or any one of the parent companies?

A Yes.

Q You are?

A Yes.

Q You have what is called a manual?

A That is correct.

Q And in that manual you will find the procedure to follow in these stages which we have under discussion?

A No.

Q How often is that manual published or given to executive officers in your company?

A It is being currently revised in accordance to fit the needs of the business.

Q How often has it been the practice or in your experience how often has that manual been revised?

A I cannot say how often it has been revised.

Q You cannot say, well have you not seen the manuals coming and superseding the old ones?

A Merely pages come to be inserted.

Q So there is a revision of procedure or regulations that are imposed on your department, that is the accounting department, that occur from time to time?

A That is correct.

Q And from whom do you receive those alterations or those amendments to the existing regulations and rules which you follow?

A I receive them from the Imperial Oil Limited.

Q Do you know where they are printed?

A No.

Q You do not know that?

A No.

Q So what does, in general, do these manuals cover so far as your department, the accounting department is concerned?

A What in general do they cover?

Q Yes, what, do they propose to lay down the line of procedure which you are to follow?

A Yes.

Q On principles, that is in the matter of principles which you are to follow, do they lay down certain principles or rules?

A Certain principles or rules, yes.

Q Yes, accounting principles?

A That is right.

Q How to judge this situation and that situation?

A Yes, how to prepare a balance sheet, an income tax statement.

Q Only that?

A And the names of the accounts.

Q So they give you an intelligent direction as to how you are to manage the accounts of the company?

A That is correct.

Q In this book of rules I have called it, I do not know what your name is, I have not seen it, but a manual, because there must be such a book, you would follow them implicitly in the main?

A What does that mean.

Q Beg pardon?

A What does "implicitly in the main" mean?

Q Implicitly in the main would mean that you would not depart from the principles laid down in that book, of procedure or that book of rules in judging or in any capacity, in opening an account or treating an account of your company?

A Oh there are some special circumstances I would consider it in a special way or I would get a ruling on it, these books I may say I believe are prepared or---

Q I cannot hear you.

A These books or these books of instruction I believe were prepared by the company's auditors firstly. I am not certain of that but I have always been led to believe that the company's auditors, Messrs. Price Waterhouse and Company, really had them up and designed them.

Q And you say you would use your own judgment in applying the principles, the guiding principles with respect to any particular situation?

A Or consult with the company's auditors.

Q Or consult with the company's auditors or your superior officers in the accounting department in Toronto?

A No, generally I refer to Mr. Humphries.

Q To the auditors here?

A That is correct.

Q So you in carrying on the accounts of the company follow a definite procedure?

A Yes.

Q And in the matter of allocating or in the matter of evaluating indirect expenses such as we have been discussing for weeks here, you would follow a line, a definite line of procedure?

A You say evaluating indirect expenses?

Q Not only in evaluating but in ascertaining, there must be a method laid down to use?

A No, there is no method.

Q There is no method?

A No.

MR. NOLAN: I am not sure, Mr. Chairman, whether this examination is going to get us anywhere. I understood Mr. Plotkins was to be permitted to examine on matters of which he had a special or peculiar knowledge, which would elucidate information useful to the Commission but it is perfectly obvious from Mr. Plotkins' line of questioning, - I think he thinks by looking at the books you can make a distribution of indirect costs, and that we have been wasting our time and the accountants' time in discussing these matters for the last few weeks, and Mr. Plotkins I think has made it perfectly clear that he has no knowledge of these matters and I submit it is wasting the time of the Commission to permit Mr. Plotkins to pursue this line of questioning.

THE CHAIRMAN: Well whether he has a knowledge or not, he has at least brought to our notice a manual which we have not heard of before and which provides some printed instructions, I think we will let Mr. Plotkins proceed at present.

MR. PLOTKINS: Thank you.

Q MR. PLOTKINS: What is the method that you demand of your different operating divisions in recording the indirect expenses such as steam, water, electricity, that is consumed by each department so that you can ascertain the facts?

A We obtain from them an expression of opinion as to how it has been used in any particular month by a particular department.

Q So that when you want to know from month to month what

amount of steam has been consumed by the pipeline division in Turner Valley for instance, you are able to go to the power plant superintendent and in his records where he estimates, if he has no other way of doing it, the amount of steam which is consumed by that department, a voucher on your instructions would come into existence stating the amount of steam and the value?

A No, no.

Q Well how is it done?

A The percentage of steam used he would show.

Q Yes, so that he estimates the percentage, the relative percentage of the whole of the amount of steam that that department, the pipeline department consumed?

A That is correct.

Q And as a result of that estimate you have a voucher?

A That is right.

Q And that voucher is posted where?

A In the books of the company.

Q In the operating records of the company?

A In the books of the company.

Q Yes. Well you have operating records as distinguished from financial records, that is the balance sheet?

A That is right.

Q That is correct and in the operating records in order to know what you are doing and to instruct or at least to pass on that information to your parent company, you must keep proper and accurate accounts of the expenses of each division to the best of your ability?

A That is correct.

Q That is right and in a company such as yours you accept

only the facts as they can be ascertained, you do not guess?

A We accept the opinion of the field superintendent or some person in the department, someone who can give us an idea of these things but that necessarily would not reflect the true indirect costs for the reason that, for the purposes of this Commission there is also to be considered the value of the availability.

Q Value of what?

A Of the availability of the steam to be supplied or any other asset to be supplied, that is to say it may so happen no steam was used in any particular month and in which month no charge would be made but the fact is that there is at all times the standby equipment there and if the electric pumps should fail, as we operate on electric pumps just now, then the steam is ready to be turned in to keep the pumps moving.

Q So that what you are saying now is that apart from the actual amount of consumption as reported by the superintendent of the steam plant you, the officer has to instruct him as to the percentage that he should use because of these factors which you have just given us?

A No, we---

Q In other words we know that the operating department requires steam in Turner Valley and we know you must provide a plant and at times that department may not use any steam but the plant must be there to supply it when they need it and as a result of that you must make an arbitrary division as to the costs or the value that you are going to charge against the pipeline for that

service and in that you include the standby provision of depreciation and what in that constitutes the value of that steam to the pipeline division, is that correct?

A No, we have not done that.

Q Beg pardon?

A We have not done that. We have taken the opinion of the engineer or the field superintendent as to the amount of steam used and that was the basis of our accounting. We have not made a charge for the availability but for the purposes of this Commission that fact should be considered.

Q True. But what I am asking you now, Mr. Burns, is to give us the information as reflected in your own books. I am not concerned at the moment with a statement or with figures I am only dealing with things, so that you say that at the end of each period and I suppose it is a month that you take as a period, is that correct?

A That is correct.

Q You allow each department, whether it would be the steam, that is the superintendent of the steam plant or the superintendent or the manager of the other utilities, to allocate to the best of their judgment or the combined judgment of their department a definite percentage to each operating division?

A That is correct.

Q And as a result you have at least that first step towards correctly estimating the values or the costs that you are going to charge up to that pipeline division?

A That is correct.

service was in what you mean by [illegible]
of degradation was that in what concerns [illegible]
of that about the pipeline division, [illegible]
ment?

No, we have not done that.

[illegible] pardon?

A We have not done that. We have [illegible]
the engineer on the field may [illegible]
amount of steam used and [illegible]
[illegible]ounting. We have not [illegible]
ability, but for the [illegible] of that
that should be corrected.

Q. But what I [illegible] mean, you may
be [illegible] as the labor [illegible] on [illegible]
poor. I [illegible] mentioned [illegible] the [illegible]
that [illegible] with figures I [illegible] only [illegible]
things, [illegible] that you may [illegible] at the end [illegible]
period and I suppose it is [illegible]
a period, is that correct?

That is correct.

You also [illegible] department, [illegible]
steam, that is the superintendent [illegible]
[illegible] superintendent [illegible]
[illegible], to [illegible] to [illegible] of the [illegible]
be combined judgment of [illegible] [illegible]
[illegible] to such personal [illegible]

A [illegible] correct.

Q. [illegible] result you have [illegible] [illegible]
[illegible] [illegible] [illegible]
you are [illegible] [illegible]

A [illegible] correct.

Q Then all that remains, at least some of the things which remain to be ascertained and recorded, is what charge in addition to the charges we have just been talking about, must be valued and recovered to cover depreciation of the plant and all the other factors which we understand as amortization and miscellaneous expenses, how do you proceed to do that?

A Well that was a long question, Mr. Plotkins, I have become---

Q You are an accountant, Mr. Burns, are you a professional accountant, I mean are you a chartered accountant?

A No.

Q But you are in charge of the books of the Royalite Oil Company?

A That is correct.

Q And it is your duty as I understand it, and if I am wrong you will correct me, to make periodical statements, operating statements, to be forwarded or to be given probably to Mr. McLeod and copies of it to be forwarded to the parent companies?

A We keep an analysis in our books of operating costs and there are certain subdivisions in those books which purport to set up either our own or some idea of what the cost may be. They contain mainly the direct costs without any great deal of distribution of indirect expenses?

Q Mr. Burns, I will put it to you this way, when the Imperial Oil, which is your parent company, when the proper division, I do not know the division, asks you, that handles these things, but I know logically it

[illegible]

[illegible]

[illegible]

must exist, when the Imperial Oil demands from you a statement, a monthly statement, showing the actual costs of transporting a barrel of crude from Turner Valley to Calgary, gathering it, transporting it, delivering it to the tanks, that statement in order to be intelligent and to be weighed by your superior officers must include all the expenses to that there would be at the other end of the line no guessing?

A Well it does not.

Q It does not?

A No.

Q That is your statement now?

A That is my statement.

Q Now to come back to the break-down,has your company or have you as the head of the accounting department not made any attempt either this year or in previous years to allocate month by month the costs of amortizing and maintaining the different utilities of the Royalite Oil Company in dollars and cents to each department?

A Using the regular rates of amortization as allowed by the Dominion Income Tax Department, yes we have.

Q No, I am not referring again to the financial statement, that has nothing to do with operating records in your department, what I am asking you is did you attempt this year or the previous years to evaluate or to record in dollars and cents the amount which should be charged against each operating department for to cover depreciation and such matters, depreciation, maintenance and contingencies of those utilities?

[illegible] the Imperial Oil Company from the [illegible] statement, making the notes [illegible] transporting a barrel of crude from Sun or [illegible] to Edmonton, authorizing it, [illegible] delivered [illegible] Yukon, that [illegible] to be weighed by [illegible] officers [illegible] all the expense [illegible] would be at the end of the line [illegible] well to [illegible]

A It does not?

A No.

Q What is your statement now?

A That is my statement.

Q How do [illegible] freed-down [illegible] company or have you in the [illegible] the accounting department not [illegible] in this year or in previous years to [illegible] by month the [illegible] amount since and [illegible] the different utilities of the Royalite Oil Company in dollars and cents [illegible] each separate [illegible]

During the [illegible] period of amortization as allowed by the Dominion Income Tax Department, yes we have.

Q. I am [illegible] again to the financial statement, [illegible] operating [illegible] which operating [illegible] in your company [illegible] what I am asking you is did you attempt this year or the previous years to [illegible] or to recover [illegible] have and [illegible] the [illegible] which [illegible] to cover depreciation [illegible] equipment, depreciation, maintenance and [illegible] [illegible]

A Of the utilities, you mean what utilities?

Q Well now, Mr. Burns, you know the costs, the capital costs of those utilities?

A I know what they cost, yes.

Q You have records to show what they cost?

A Yes, by utilities do you mean the steam plant?

A The steam plant, the electric light plant?

A Yes, I know what they cost.

Q I am not dealing with the office, we will come to that later, and if you know the capital cost and you know the maintenance expense, the question of whether they should be a standby or not is outside of your purview for the time being because we are not concerned with engineering features or whether the utilities should exist or not, you are concerned with the accounting end, am I right?

A I am Secretary and Treasurer of the Company.

Q I mean from the accounting standpoint, when you are dealing with accounting and trying to arrive at the proper figures to be charged to each operating division, you are not at that time concerned with whether an engine should be there or whether it should not, you are concerned with finding out what is the cost that you should allocate to the pipeline division when you are dealing with the pipeline division, based on the actual facts of maintaining, first creating and then maintaining those facilities so that they will be available to the different departments of the company, am I right?

A Well to the extent that an accounting man is concerned I am concerned with all that. If I was in doubt as to

any engineering problem I would consult the engineer.

Q Forget about the engineer for the time being and come back to the accounting end. You have ascertained the amount of steam or water or electricity or gas that the pipeline division used?

A I have obtained an opinion of, an arbitrary opinion of someone and that is the basis for my charge.

Q Mr. Burns, is that not, we have just gone through that, it is more than an arbitrary opinion, it is an evaluation by a man who actually turns a valve and knows how much steam is going over?

A No, the man whom I obtained the opinion from does not turn the valve.

Q The superintendent is not in a position to know or to ask his employees how much steam in relation to the whole would be given or used by the pipeline division?

A Oh yes, yes.

Q Certainly, so it is not arbitrary, not in that sense that it is just a guess?

A Yes it is, it is just a guess, an opinion.

Q Do you know if you have meters for measuring steam in the Valley?

A I do not know.

Q You have no means?

A I do not know whether we have or not.

Q So you are not in a position to say at this stage whether the basis of your voucher is not an actual record?

A No.

Q Do you know if they have any meters of the gas that they use in these different operations?

A They have some meters for gas.

Q And they are not in a position to guess, they actually record the amount, that is correct, where they have meters?

A Where they have meters.

Q When it comes to electricity they have or have they not meters to measure the current used by the different divisions?

A I cannot say.

Q You cannot say?

A No.

Q So that so far as you know when you get a voucher from the steam plant that purports to apportion 25% of the total steam consumption of that plant for a given month to the pipeline division, you do not know whether that is a guess or whether it is an accurate measurement or whether it is an estimate?

A What is the difference between a guess and an estimate?

Q Well an estimate is based on somebody's judgment that is familiar with the facts, a guess, I can make a guess.

A Well I do not know.

Q You do not know that, but you have agreed that you do have a record in the form of a voucher that will give us the amount of steam, the amount of electricity, the amount of water, the amount of gas, that the pipeline division uses?

A Which someone says they have used.

Q Beg pardon?

A Which someone has either estimated or guessed that they

have used.

Q Someone who is familiar with the conditions?

A They may be familiar with it, I am not certain.

Q Now who would be familiar and would be in a position, in a similar position to apportion or evaluate the manner of amortization of the utilities, the costs, and allocate them properly in the same manner to the pipeline department?

A I do not know.

Q You do not know?

A No.

Q You say it is not done?

A Well it is not necessary to do it. We do not go into extravagant accounting details to determine the split of these indirect expenses. It is not necessary in the operation of the company as a whole. We try to, for our own informative purposes, we try to make a split in an arbitrary estimate or guess or whatever it is of those expenses between the departments but I would not say that there is any great weight to be put upon them, it is not necessary.

Q Mr. Burns, how would the pipeline division of the Standard Oil of New Jersey which is the parent company the offices of that company, how could they measure the efficiency and the value to them, as opposed to other pipelines in their system, if you did not give them an operating statement which would include all of those items?

A Well I do not know whether the Standard Oil of New Jersey has a pipeline division but I have not supplied it with any statements regarding the operations of

the Royalite if it has.

Q By the way, Mr. Burns, who besides Mr. McLeod do you supply such a statement?

A Pardon.

Q I am asking you who, to whom besides Mr. McLeod do you supply such an operating statement as to the pipeline division?

A The operating statement of the pipeline division?

Q Yes.

A We sometimes forward them to Mr. G. H. Smith of Toronto, the Chairman of the Board.

Q Sometimes or regularly?

A I believe there are some regular statements go down.

Q So that regularly, once a month, a copy I assume of your operating statement that reflects the cost for that month of operating the pipeline division, translated into cents per barrel, is forwarded to Mr. Smith of Toronto?

A No total cost, no.

Q Beg pardon?

A No total cost.

Q Well is it translated into cents per barrel?

A Yes.

Q It is and you still maintain that that statement would not be, would not indicate all of the relevant items, it would be incomplete?

A It would be incomplete.

Q THE CHAIRMAN: Do you say that that statement was monthly, that was included in the question but there were other things in the question, is that a monthly statement to Mr. Smith?

A Yes.

THE CHAIRMAN: All right.

Q MR. PLOTKINS: So that what would be the purpose of you or your department sending to Mr. Smith, the President of the Imperial Oil, a statement that was incomplete?

(Go to No. 4058)

A What would be the purpose of it?

Q Yes, would not you normally expect Mr. Smith would ask you to give him a complete, or at least a statement respecting the total costs?

A Well, I do not know. He has not said anything about it.

Q Is this statement mailed to Toronto?

A Yes.

Q Coming back to this manual, has every executive officer.....

THE CHAIRMAN: Excuse me a minute, Mr. Plotkins. Would it be like unto Exhibit "157", Mr. Burns, this statement that goes out to Mr. Smith?

A As I recall it, it contains a break-down of the costs of the oil gathering lines expense and trunk lines expense. Now, what it contains beyond that, I do not recall at this moment. It just shows labour so much money, and repairs. Maintenance, repairs, labor.

Q I suppose it would be simple to produce one of those sheets?

A Yes.

Q MR. COMMISSIONER LIPSETT: Has it been shown to Mr. Morrison? Has he seen it, do you know, Mr. Burns?

A I cannot say.

MR. FRAWLEY: No, Mr. Morrison has not seen it and I would at the proper time ask to see that. Will you bring those kind of statements to us, Mr. Burns?

A Yes.

Q MR. PLOTKINS: Were you here when I questioned Mr. Coultis along the same lines in regard to the break-down of his operations?

A I do not believe I was. No. I was here several times when you were questioning Mr. Coultis.

Q If I remember right, Mr. Coultis stated to us that he did

receive a statement periodically that would enable him to know or to weigh the efficiency of his operations?

A Yes.

Q From month to month or from year to year?

A I recall his evidence, he having said he received a statement.

Q And later it was said there was no such statement in existence. Somebody's evidence, I do not recall who it was.

MR. FRAWLEY: Mr. Coultis explained, I think it was not a statement, that he just had access to certain costs and information when he asked for it.

MR. NOLAN: He said he would receive it if he asked for it. I remember that expression being used.

MR. PLOTKINS: Then I am wrong in that respect.

THE CHAIRMAN: Mr. Coultis in offering his evidence the next morning, I think, qualified that impression that might have been gotten from the previous evidence. I think I can take it for granted that the evidence of Mr. Coultis is that he does not get any statements but he has access to the books and can get any statement he wants.

Q MR. PLOTKINS: This manual you have previously referred to, is there such a manual provided for each executive officer of your company?

A No, not for each executive officer.

Q Is the president provided with a manual, or the manager. In this case it happens to be president and general manager?

A I believe they come addressed to him.

Q I mean a copy for his guidance?

THE CHAIRMAN: He gets them all, the witness says, and distributes them.

Q MR. PLOTKINS: So that, apart from your manager,

there is one for the general manager, having to guide him in his operations?

A Well, we have said he gets them all. He gives me one.

Q I do not think you understand my question.

Q THE CHAIRMAN: It is just the one manual?

A Just the one manual.

Q With all the instructions?

A Yes.

Q MR. PLOTKINS: And does the manual cover all the operations of the company, of a company such as yours?

A It contains instructions for the preparation of balance sheet and income statement and what should be included in certain accounts.

THE CHAIRMAN: Instead of spending a long time on it, would you have any objection, or would Mr. Nolan, to producing such a manual. It is general instructions under which you act?

A Yes, sir.

THE CHAIRMAN: Is that satisfactory, Mr. Nolan?

MR. NOLAN: Yes.

THE CHAIRMAN: Then we can drop that, as to what is in the manual. It can be produced.

Q MR. PLOTKINS: Are you guided in the final preparation of these operating statements as they are sent to Toronto, are you guided by anyone else outside of the Royalite officers. In other words, what I mean is there anyone sent from New York or Toronto to you or to your office that assists you or directs you personally in making the formal records to be forwarded to the Toronto company?

A With respect to the Royalite Oil Company?

Q Yes, with respect to any of the operations of your company?

A You are speaking now of the Royalite Oil Company?

Q The Royalite Oil Company?

A No.

Q Thanks. That is all I have to ask.

THE CHAIRMAN: Any more questions?

Q MR. COMMISSIONER LIPSETT: Mr. Burns, just one more question. I gather with reference to this Exhibit "157", that a great deal of these indirect allocations from time to time had to be estimates or guesses, that is, in allocating the indirect expenses?

A That is correct, sir.

Q At the time you were doing them, if you had any doubt, was it your practice to consult other officers of the company or the auditors so as to make the best guess that was possible at the time?

A That is correct. I could consult with any of the engineering or field staff to give me any information about these matters.

Q And your guess was a fair and honest and accurate guess, as far as you could make at the time. You made it in the best interests of everybody?

A Well, yes. It, perhaps, did not consider such questions as availability.

Q Then when the estimate or guess was made you sent that down each month in the statement to Toronto, is that correct?

A I cannot say as to that, whether there is any proportion..... I said it does contain a proportion of the indirect expenses. Some portion. I am not certain.

Q And that was done on as fair a basis as you could as secretary-treasurer and as head of the accounting branch, as you could ascertain at that time?

A No, I would not say that.

Q Was there something.....

A It was purely to give them, to inform them, to give them an idea of how these operations were going. They are not intended to be complete in any way.

Q Where you did distribute the indirect costs, I take it you did it as fairly as you saw it at the time?

A No. I cannot say at this time. I do not know what indirect costs it does contain. I would have to review the statement.

Q So far as you proportioned the indirect costs did you do that according to the best of your judgment at the time?

A No, I would not say that. It did not take into consideration, as I have just said.

Q MR. NOLAN: What the Commissioner said is forgetting the items that are not in it and thinking only of the items that are, did you use your best judgment of the allocation of those?

A Well, it may have been some instructions that we got, some way of splitting, I do not know. I cannot say.

Q That is what I gathered. You want to know. It was on the information that was given to you by someone who was in a position to know?

A Yes.

Q MR. COMMISSIONER LIPSETT: Did that include instructions from the auditors of the company at the time?

A No. No, the auditors would not be concerned with inter-office statements. I doubt if they have seen them. I do not know much about that.

Q I thought the manual under which you acted, in general, was....perhaps, I am wrong in understanding - that that was obtained or provided for the company by the auditors?

A That is right. Well, it is provided to me by the Imperial

Oil Limited at Sarnia. I believe that they in turn get their instructions from the Standard Oil Company of New Jersey in New York, and it, as far as I know, contains no instructions with respect to the splitting of administrative or indirect costs.

Q Now, each year as the accounts come to be audited , were the auditors conversant and fully acquainted with the methods that were adopted of splitting these indirect costs and various other matters which appeared in your books?

A Yes, but the auditors are primarily concerned with the costs of operating in total for the preparation of the income statement and the balance sheet and only secondarily are they concerned with any splitting as between departments.

Q I quite appreciate that, Mr. Burns. But in general, I take it, the auditors and yourself and all the officials tried to do this as fairly as they could between departments?

A No, I am afraid that not a great deal of serious thought has gone into splitting these expenses in the past as between departments. I have found that out in this Investigation. It has not been necessary for us to do it. There is no one has been sufficiently concerned about it for to.....which would make it necessary for us to concentrate too much on these splits.

Q THE CHAIRMAN: You say in effect all you wanted to have was a rough idea of what each department was doing. That you were concerned primarily with what the company as a whole was accomplishing with the adventures it was taking on?

A That is correct.

Q And so your minds were never really directed to a precise and accurate determination of what should be charged unto each department?

A. That is quite true, sir. Until this Commission started I did not realize the many intangible things that should be properly considered in the costs of any one department.

Q The Commissioners are getting a great deal of light too.

Q MR. FRAWLEY: This last inter-change of questions and answers puts it a little better than you put it a moment ago, that it was not complete in any way, the statements you sent down to Mr. Smith. You did not mean to go that far, did you?

A Complete in any way?

Q Yes, you answered Major Lipsett that they were not complete in any way. It just occurred to me it would be an awful waste of time sending them down if they were not complete in any way?

A I would say any department is not complete.

Q Then I think in view of the questions I asked you just now I know what you mean. That is all.

THE CHAIRMAN: Mr. Harvie?

MR. HARVIE: Nothing.

THE CHAIRMAN: Mr. Kolb?

MR. KOLB: Nothing, my Lord.

.....

JAMES McGRATH, recalled:-

Q BY MR. FRAWLEY: Mr. McGrath, you are still under oath. I want to call your attention to the Montana Oil and Mining Journal published at Great Falls, Montana, Saturday, February 4th, 1939, and strange as it may seem we seem to have some posted field prices for Cutbank crude. You see what appears here on the mast head of the paper. Posted Field Price, Kevin-Sunburst 90 cents, Pend'Oreille 80 cents, Cutbank $1.10, Cat Creek $1.10. I also call your attention to a record of the daily production statement with respect to the daily production of Montana-Wyoming, week ended January 28th, from which it appears that in Montana there was a daily production at Cutbank of 8,280 barrels, Kevin-Sunburst 3,630 barrels, Buckley Border 110 barrels, Cat Creek 520 barrels, Dry Creek 925 barrels, Lake Basin 10 barrels, Pend'Oreille 670 barrels. First of all have you any comment to make on what appears to be that the posted field price in Cutbank is $1.10 a barrel?

A No, I have no statement to make. As I mentioned before our Company feel that Cutbank crude can be bought for 95 cents a barrel, and it has been purchased for 75 cents a barrel.

MR. FRAWLEY: Mr. Chairman, this is only part of a paper.

THE CHAIRMAN: You have read into the record, haven't you all you want from it?

MR. FRAWLEY: Yes.

THE CHAIRMAN: The witness says he does not know anything about it. It is just of no value.

MR. FRAWLEY: We have other posted field prices published in other periodicals. I am not urging that it should go in. I do not think we should get down to clippings. If I had all the paper perhaps I should ask to file it. But perhaps that is going a little too far.

Q Mr. McGrath, if you had taken $1.10 instead of 80 cents, 90 cents and $1.00, it would of course, throw these calculations of yours out?

A It would change the calculations, yes sir.

Q Would it still keep our crude out of Regina as against Cutbank?

A I do not know, Mr. Frawley, what that would mean without going through these calculations again. It would change the line between Sarnia and Regina. I do not know. We would have to go through that all again.

Q It would certainly affect these calculations you have given us of course?

A Yes.

Q Before you go - because somebody said you were going away tonight - you have done all you can towards telling the Commission the number of barrels that would be backed up to Turner Valley if Illinois crude took the Manitoba area?

A The statement shows that.

Q I want to be clear there is nothing still forthcoming from you about that?

A No.

Q You have referred to chart No. 1, Exhibit "140", which shows 2,233 barrels would be backed up.

A As shown on Statement No. 1.

James McGrath.

Q Under all these conditions set out in Chart No. 1?

A Yes.

Q It also follows, does it not.... .

A Did I say it would be backed up, or did I say whether the producers would take.....

Q Oh yes, certainly, you said that, and I understand that thoroughly. So if we take $1.10, even thinking about the Manitoba area at the moment, there is a varying of one factor and another, and Montana does come into that picture does it not?

A Yes. The territories alter.

Q So if some of our crude was backed up there would be less backed up if we used the $1.10 posted field price in Cutbank?

A I cannot answer that.

Q I thought perhaps you could say there would be some, but I am not asking you how much at all.

A I do not know. I would have to go through the calculations. These territories would have to be redrawn and re-alighed?

Q That is all I mean. Would there be some re-alignment as you now see it?

A Yes. As I see it now. But I would have to study the problem, and have our people work on the problem. There would be a re-alignment of the yellow area, on the Manitoba area?

A Yes.

Q Would you think there would be some less number of barrels backed up?

A Now wait a minute, it would change this line. As these costs go up at Regina it changes that line. I do not

know what volume is concerned. I do not know what the freight structure is in there. It would depend on a study of all that.

Q I want a general picture of it, but do not even answer my general questions if you think you should not. I wondered whether or got it would so change the areas that not so much crude would be backed up out of the Manitoba area as is backed up by your Chart No. 1?

A Well I would prefer not to guess if I may say so.

Q THE CHAIRMAN: I do not understand that. I do not know why it is a guess. You took certain prices in Montana didn't you?

A Yes sir.

Q If it transpired that you were quite wrong and that the prices that obtained in Montana were higher, namely the difference between 90 cents and $1.10 for example, would that not of necessity - not as a matter of guess-work - have a favourable effect on the Turner Valley production which would be reflected in any new Chart you were to draw, based on that new knowledge.

A Well I am sorry, sir, I cannot answer that for the simple reason that as the price of crude goes up at Regina, it changes the line between Sarnia and the Regina refinery. I cannot answer that. There is the freight considerations there as well as the volume, and I cannot answer that, sir. I am sorry.

MR. NOLAN: Of course, Mr.Chairman, what we say in evidence is we can buy this crude in Montana at 95 cents or better?

A Yes.

James McGrath. -4069-

Q We said that publication the other day did not show a posted field price. But this publication does. It does not follow, however, we have to buy at the posted field price. We may be able to get it for less.

THE CHAIRMAN: I am putting something different to the witness than that. I put it to him that assuming it were an established fact they had to pay $1.10.

MR. NOLAN: Yes, assuming that.

THE CHAIRMAN: Yes, which I asked him to assume with me, would it not necessarily have an effect favourable to the greater production of Turner Valley crude in any new picture he were to make, based on that new knowledge.

MR. NOLAN: Is the Turner Valley territorial line moved further East?

THE CHAIRMAN: Yes.

MR. NOLAN: Yes, I understand.

THE CHAIRMAN: Because the price in Montana is one of the factors he is relying upon in making that map at its highest 95 cents as against a suggested price of $1.10.

MR. NOLAN: But there is the other end of the story too. Because is it not a fact, Mr. McGrath, that the encroachment of the Illinois on to our Western Canadian territory, depends again upon the competitive price of Montana?

A That is right, sir.

Q Then if Montana goes up, or is up, we will say to $1.10 a barrel, what effect has that got on what we call our yellow area on Chart 1?

James McGrath.

A It extends the yellow area. I presume it does. I do not know until a study is made. I presume it does. The indications are that way. Do you agree with that, Mr. Cottle, from your understanding of these statements?

THE CHAIRMAN: As Montana goes up?

MR. NOLAN: As Montana goes up the green area diminishes.

Q THE CHAIRMAN: It does not extend the Turner Valley you think eh? It just extends Illinois?

A These areas change. Yes, that Illinois area would be extended.

Q MR. NOLAN: Westward?

A Westward, yes.

Q MR. COMMISSIONER LIPSETT: Take Turner Valley and Montana first, Mr. McGrath. If your premise is based on Montana crude at something between 80 cents and $1.00 and in fact the price is $1.10, does not that equally extend the area of Turner Valley crude as against Montana, both locally and into Saskatchewan?

A Not in competition with Illinois crude.

Q Never mind Illinois for the moment. Take Montana. You say Montana is a factor at Regina. Now as far as your Chart dealing with Montana is concerned, if your premises are all wrong and that the posted price or the actual price is $1.10, does not that increase the Turner Valley consumption as against Montana?

Q THE CHAIRMAN: Which is its competitor at Regina, we hear?

A Well it cannot increase the consumption on account of the Illinois crude, sir. The Illinois crude is

the one that stops expansion.

Q MR. COMMISSIONER LIPSETT: Does that mean we can disregard Montana altogether as regards Regina?

Q THE CHAIRMAN: Yes, and it does not matter whether the posted price or the price obtainable rather, is up or down?

A No, we are talking about that area, sir. If you are talking about values - are you talking about values or quantities? That is what I must first get clear.

Q MR. COMMISSIONER LIPSETT: You are saying there is a threat to Turner Valley crude from two sources as I gather it, one from Illinois and one from Montana. I am asking you to deal first of all with the threat from Montana, as to which you have given us figures on which your whole assumption is based. If those figures are incorrect, proven to be incorrect so far as Montana competition is concerned, does not your fear disappear?

A May I put it this way. I have based figures on 80 cents, 90 cents and $1.00 Montana.

Q Yes.

A Now as it has been suggested here that the price may be $1.10, that would increase the competitive value of Turner Valley crude for Calgary and Regina areas but at the same time it would permit Illinois crude to extend further into the Regina area.

MR.NOLAN: Then the green area shrinks from both ends?

A Yes.

Q MR. COMMISSIONER LIPSETT: The green area might shrink

James McGrath.

as regards Illinois but still Turner Valley have a much greater consumption if it puts out the Cutbank Montana. Well, we are only arguing around a circle.

Q MR. NOLAN: But Mr. McGrath, you cannot pay $1.10 and cut Montana crude out of all this green area?

A Oh no. The Montana crude comes into that green area.

Q To an extent at least of paying $1.10?

MR. FRAWLEY: To some extent you mean.

Q MR.NOLAN: To some extent at $1.10?

A Yes.

Q The question asked you what the extent is that can only be worked out by making a calculation on the basis of $1.10?

A That is right.

Q What you are saying to the Commission is that green area now allocated to Montana crude would be narrowed?

A That is right.

Q By the increase in the price of Montana?

A That is right.

Q It would be narrowed on the West by the encroachment of Turner Valley into the Western part of the green area, and would be narrowed down East in the Manitoba end by the encroachment of the Illinois crude. It is pinched, that is right is it not?

A I do not know. I do not just follow you.

MR. COMMISSIONER LIPSETT: What I am putting to him is Montana would be pinched by Turner Valley?

MR. NOLAN: Montana is not here yet. The question is whether this area of green which has been allocated on these charts to Montana, would be

James McGrath.

the same at $1.10 or 80 or 90 cents. The answer is it would not.

MR.COMMISSIONER LIPSETT: The green is not allocated only to Montana?

MR. NOLAN: Yes.

Q MR. COMMISSIONER LIPSETT: Is there any Turner Valley?

A The areas on this map, the pink area and the green area, the green area is on Cutbank and the yellow area is on Illinois crude. Now we come along and we put Turner Valley crude on top of that and say what we can afford to pay for Turner Valley crude for those areas.

Q The green area, as I understand it, is only Montana on the basis of 80 cents, 90 cents of $1.00?

A That is right.

Q Not at $1.10?

A That is right.

Q There is one further point I want to put to you, Mr. McGrath. I touched on it once before. You are speaking now for the Imperial Oil. You say you are neither producers nor transporters, but you are buyers of crude oil?

A That is right.

Q Your whole evidence is based on what you can buy crude oil at?

A That is right, sir.

Q And as such buyers of crude oil, does it not follow that your Company is vitally interested in getting as low transportation charges as are fair and reasonable for the crude oil that you buy?

A Well I cannot answer that. That probably will come under policy matters and I cannot deal with that. I

am just dealing with the facts as they are today, Mr. Commissioner.

Q Does it not follow from the sort of evidence that you are giving us that it is of vital importance to Imperial, in their capacity of refiners, that this pipe line rate should be as low as reasonably possible?

A Well as I say I have dealt with the facts as they are today. I cannot make any statement as to the policy of the Company in these matters at all. I just dealt with the facts.

Q THE CHAIRMAN: You say it is economically sound to buy in the cheapest markets, but you are not sure it is economically sound to get transportation as cheap as possible?

A I am not saying anything about transportation, Mr. Chairman. I am telling you the facts I had. I cannot set hypothetical freight rates or hypothetical pipe line rates and arrive at these values. I can just work on the facts as they are today.

Q If you are refiners, the Imperial wants the crude oil at the lowest possible price at their refinery in Regina and in Sarnia, whatever methods are adopted to get it there?

A That is right.

(At this stage the Hearing was adjourned until 2 P.M.)

.....

2:00 P. M. Session.

EDWARD W. KOLB, having been first duly sworn, examined by Mr. Frawley, said:

Q Mr. Kolb, you are the secretary of the Alberta Petroleum Association?

A Yes.

Q And that is an association made up of what kind of people?

A The operators, and of companies directly connected with the industry.

Q The petroleum industry in Alberta?

A The petroleum industry.

Q Chiefly, I take it, the operating companies?

A That is right.

Q The companies presently producing?

A Drilling.

Q Or searching for production of petroleum in Alberta?

A That is right.

Q Now, Mr. Kolb, do you make it your business to gather information with respect to the prospective drilling in the Turner Valley?

A Yes.

Q And have you gathered some information with respect to the prospective drilling in Turner Valley for the year 1939?

A For, we issue monthly a statement which is called a "Progress Report" and we try to set forth the possible drilling operations for the coming say sixty days, not for the year.

Q For the coming sixty days?

A Yes.

Q And have you gathered some information for the, as to the

prospective drilling, p ssible drilling for the next sixty days?

A Yes.

Q Well, will you tell me what that information is?

A Now, that information, you understand, is mostly hearsay, our office is a meeting place of different operators.

MR. NOLAN: Don't let that bother you.

Q MR. FRAWLEY: No, my friend says don't let that bother us at all?

A And we endeavour to find out by contacting the people what companies are going to drill within the near future.

Q When you say "hearsay" do you endeavour to contact the people who are actually to become a producer or the people who are drilling?

A That is right.

Q Or contemplating drilling?

A That is right.

Q In other words, is it as reliable as you can obtain?

A Yes, there is only one really reliable, and that would be at the Conservation Board where they take out the drilling permits, but the information which we get is usually considerably in advance of their calling upon the Conservation Board for a permit.

Q Yes. Now, the information which you have, I suppose, in certain instances, you have notice of whether or not a drilling permit has been issued, is that part of your information?

A No, we do not bother about the drilling permits at all.

Q You do not bother about that?

A No, we get the information as to where the wells are likely to be drilled and by whom and when.

Q And you get that, you say, from the people, from the firms themselves, the companies themselves, when you can?

A That is right.

Q Well, in my submission, Mr. Chairman, we might see what the information is and see what it amounts to afterwards.

THE CHAIRMAN: Oh, I think so.

Q MR. FRAWLEY: Very well, Mr. Kolb, tell us what information you have with respect to the prospective drilling in the Turner Valley for the next sixty days, or whatever period you have?

A Here is the field Progress Report for January and February.

Q 1939?

A 1939.

Q Yes?

A We set forth the names, now, this was prepared, you understan December 31st.

Q As of December 31st, 1938?

A As of December 31st, this was prepared covering the months of January and February. It shows at that time that there would be nine wells to start during those two months; seven of those have already started. Two others are supposed to be started before the end of this month. In addition to that, between those two months and early Spring our records show that there should be seventeen get started before Spring.

Q Now, do you include in that the information which Mr. Burns gave this Commission yesterday, that the Royalite would have eleven or twelve wells in 1939?

A No, this report provides only for one, that is Royalite 39.

Q In these figures you are now giving us you only have

provision for one Royalite well, and that is Royalite No. 39?

A That is right.

Q If you add to that, we will see what the gross figure is, you add to your, what is it, seventeen?

A Seventeen prospective.

Q THE CHAIRMAN: Is that over and above the nine or including the nine?

A Over and above.

Q MR. FRAWLEY: Over and above the nine you first gave us?

A Just a second, no, that includes the nine.

Q That includes the nine, so there are seventeen prospective wells between now and early Spring you say?

A That is right.

Q And then if we add eleven, no, add ten, because you have one Royalite in, you will have a total prospective drilling programme of twenty-seven?

A Not until Spring, I think the Royalite budget would take for the year.

Q Yes, then with that qualification, I want to get the Royalite wells in.....

MR. NOLAN: Just a moment before we put it in, the evidence is there has been a budget presented to the Commission which sets aside a sum of money which would be the approximate cost of drilling ten or twelve wells this year.

Q MR. FRAWLEY: Yes, that is understood. Now, in these seventeen, with Mr. Nolan's explanation, we will leave the Royalite wells, ten of them anyway, out for the moment, and these seventeen wells, I presume there are some of those wells where you have simply been told by the company that they have a prospect of commencing drilling?

A Yes.

Q A location selected?

A And of the seventeen there have been seven started, and I understand four more have taken out permits.

Q Yes. Now, some of those companies, are there some of those companies included in that, that have still to be financed before they commence their drilling operations, I mean I want to be fair about it?

A I would say two, from my information.

Q Two from your information are not yet financed?

A No.

Q Are you including any Home wells? any Home?

A Just one well.

Q Just one Home well?

A Yes.

Q You are just including one well for the Home, you have some information about that?

A Yes.

Q Are you including, so that I will be certain as to the kind of wells you are including, you are not including the Inland?

A No.

Q And you are not including West Turner 4?

A Yes, West Turner 4.

Q You are including West Turner 4?

A Yes.

Q I mean, however, you have included those wells because of information that you have been able to obtain from the company?

A And they have announced locations and in many cases started cellar.

Q But to what extent some of those companies still have to finance, that is the thing I want to be as clear as I can about, you say just two?

A To the best of my knowledge, only two.

MR. FRAWLEY: All right.

Q TO MR. NOLAN: Mr. Kolb, you are the secretary of the Alberta Petroleum Association or Producers' Association?

A Petroleum.

Q And that includes, as you say, all those companies operating, either drilling or searching for oil?

A Its membership produces 94% of the total production.

Q Yes. Now, Mr. Kolb, you have occupied that position for some time?

A Yes.

Q You are familiar with the oil industry in Alberta, apart from the Turner Valley, are you?

A Yes, I think so.

Q Perhaps, you will be good enough to give us what information you have as to what drilling is proposed to be done in the Province of Alberta in areas other than the Turner Valley?

A Well, there are five wildcat wells which are to be completed by the Anglo Company.

Q Mr. Kolb, what are wildcat wells?

A Wells beng drilled in unproven areas.

Q Yes, wells being drilled on what we call the unproven area?

A Yes.

Q They are being drilled by the Anglo Canadian Company?

A Yes.

Q Where are they?

A One of them is at Steevesville.

Q Where is that?

A 140 miles east of Calgary.

Q And to what depth have they got, do you know?

A They are reported to have contacted the lime at 3185.

Q At 3185?

A Yes.

Q They have encountered no production yet?

A Not that anyone knows.

Q Did they encounter anything in the upper horizon, any showings of oil or gas?

A Nobody but the company would have that information.

Q That is quite so, one at Steeveville 140 miles east of Calgary?

A Yes.

Q The second where?

A At Milk River.

Q And Milk River is where?

A It is south and west of Lethbridge.

Q And what depth have they got to?

A 2442.

Q Yes?

A And they stopped drilling there after having contacted lime.

Q Does that mean they have given up hope?

A No, for reasons known to themselves.

Q Well, they hit the lime, you say?

A Yes.

Q And stopped drilling?

A Yes.

Q You do not know why?

A No.

Q Yes, is there a third?

A The third is at a place called Savannah Creek.

Q Where is that?

A That is back in the Foothills south and west of Turner Valley.

Q Yes?

A The fourth is at Castle River.

Q What did they find at Savannah Creek?

A They are just starting.

Q The fourth, Mr. Kolb, I am sorry to interrupt you, the fourth?

A The fourth is at Castle River, which is south-west of Turner Valley.

Q Yes?

A The fifth is at Twin Dome.

Q What did they find at Castle River?

A They are still drilling.

Q Do you know at what depth?

A The last reported depth was at 5200 feet.

Q Yes, and the fifth?

A The fifth one is at Twin Dome, which is near Aldersyde, no, east of De Winton.

Q And what progress have they made there?

A I have not got their latest drilling report. I imagine they would be around 5200 feet.

Q Now, what other wildcat wells are being drilled in the Province, Mr. Kolb, besides the five you have mentioned of the Anglo Canadian?

A There is one called Grease Creek.

Q Where is that?

A It is in the Foothills west of Innisfail. Another one is called.....

Q Have you the depth there?

A I have not the depth; only casually, I would say they are around 1300.

Q Yes.

A Another one is called Ram River, 100 miles West of Olds. The depth of that I would say about 900. Another called Clear Water structure.

Q Where is that?

A Well it is known as the Altoba, that is about 80. miles West of Didsbury.

Q And what have they encountered there?

A Good indications.

Q They got some oil?

A Well all we have is what we read in the papers.

Q Perhaps you will tell me what you have read?

A Good indications.

Q Just good indications is all you read?

A Yes.

Q All right, are there others Mr. Kolb?

A There is the Moose Dome.

Q And the Moose Dome is situated where?

A 40 miles South and West of Calgary.

Q It was described to us here before as being up the Bragg Creek road, up in that direction, that is right is it not?

A That is right, yes.

Q Have they production there?

A They have small production at a shallow depth.

Q At what depth?

A I think it is around 14 to 15 hundred feet.

Q Yes, do you know what the production is?

A Only heresay.

Q Well don't let that bother you, Mr. Kolb.

A They claim to have in the neighbourhood, being able to

pump 40 to 50 barrels a day.

Q Is there one well there?

A Yes, one well there.

Q Are they drilling another?

A They are expecting to start another well in the Spring.

Q Does that exhaust the "Wild cat"?

A No, one called the Roxana, which is 20 miles South and West of Morley. They are drilling at 3920, resuming in the Spring.

Q Mr. Kolb, are there not two wells in the Moose Dome structure?

A Nr.

Q Beg pardon.

A No, the Roxana is the second, it is on the same structure.

Q This is the Pilling well?

A There are two there, but one has been practically abandoned.

Q It is the latter one which is producing this 40 to 50 barrels a day?

A That is right.

Q Then there is the Roxana, are there any more?

THE CHAIRMAN: Why was the first abandoned?

Q MR. NOLAN: Why was the first Moose Dome well abandoned, Mr. Kolb?

A Well they lost one set of tools and then finally a second and a third, which meant that they really lost the hole.

Q Yes, is this information which you are giving to me

[illegible] 30 barrels a day.

Q. In [illegible] the well there?

A. Yes, [illegible] there.

Q. Are they drilling now?

A. They're expecting [illegible] start [illegible] in the spring.

Q. Does [illegible] that the "[illegible]".

A. No, [illegible] rock is, which is 20 miles [illegible] and [illegible]. They are drilling at 3950, re-[illegible].

Q. Mr. [illegible] not [illegible] drilling in this [illegible] time [illegible]?

A. [illegible].

Q. [illegible].

Q. Mr. [illegible] is the record, it is on the same [illegible].

Q. [illegible] drilling [illegible]?

A. [illegible], [illegible] one [illegible] practically [illegible].

Q. [illegible] on [illegible] drilling [illegible]?

A. [illegible]?

Q. [illegible].

Q. [illegible] the [illegible]. Are there any [illegible] [illegible]: [illegible] day was the first [illegible]

A. [illegible]: [illegible] day was the first [illegible]

Q. [illegible], [illegible].

A. [illegible] [illegible] of [illegible] and then [illegible] [illegible], which [illegible] the [illegible]

Q. [illegible] in [illegible] which [illegible]

now in any printed form, Mr. Kolb, that I can get at?

A No.

Q Or read or hand to the Commission, this is information which you have gathered here and there?

A Well there is a bulletin issued which contains all this information. I can give you one of those. Then there is another called the Home-Brazeau, which is near Nordegg. They are 4520 feet, and then you have other wells, I do not know whether you want to call them "wild cat" or not, such as the New Valley, which has been drilling for many years and the Sentinel, all on the East flank of Turner Valley.

Q How far are they away, what do you mean by the East flank of Turner Valley?

A On the East side of the structure.

Q Are they in what we call the Calling Valley?

A Yes.

Q Oh yes, we have heard of that, there are two wells drilling there, are there, the Sentinel and the New Valley?

A That is right.

Q Have you the depth of production or is there any production?

A Yes, the Sentinel is 7315 feet, and the New Valley 8450. Now we have another well known as the Weymarn well near Pincher Creek.

Q Yes, near Pincher Creek?

A Yes, it is 6432 feet, scheduled to resume in the Spring.

Q THE CHAIRMAN: Are Sentinel and New Valley drilling?

A No sir, not now.

Q Have they been for some time?

A They have not been drilling for, I would say at least six months.

Q MR. NOLAN: Did you say they were intending to drill in the Spring or do you know?

A That is the rumour.

Q That they are or they are not?

A That they are going to start drilling again.

Q Yes?

A Then you have the Taber, what is known as the Taber field where they have started four wells but they have only production in one, of commercial quantity.

Q And what is that production?

A I do not know, I would say perhaps around 25 barrels a day.

Q THE CHAIRMAN: 25?

A 25.

Q MR. NOLAN: Somebody suggested here that it was between 40 and 50 barrels a day?

MR. FRAWLEY: What well?

MR. NOLAN: The Taber.

MR. FRAWLEY: 48, that is the manager, Mr. McDougall, told me, 48 barrels average last year.

MR. NOLAN: That is good evidence, Mr. Chairman;

Q MR. NOLAN: All right, Mr. Kolb?

A There is still another one is the Marjon Maxmont, no recent drilling reports but the last being 7430 feet.

Q Where is it? Mr. Kolb?

A That is also in the Pincher Creek area, North in it.

Q Yes?

A There is another one there called the Marjon Oils No. 3 in the same area, shut down for the winter. Would you like to go on into the Pouce Coupe or do you want the south end?

Q I want to know all there are but if they are written down any place that I can put them in, you are reading from a bulletin are you?

A Yes, it is the Oil Bulletin.

Q Is there any reason why we should not have one of these filed here, Mr. Kolb?

A No, we can leave this one right with you.

Q Where is Pouce Coupe, are there any more to enumerate?

A I think just two, in, down at the boundary, there are a couple of wells there.

Q Down at what boundary?

A The United States boundary.

Q Where, in the vicinity of what?

A Del Bonita is in legal subdivision---

Q Give us the town.

A I would say South and West of Lethbridge.

Q Two wells both called Del Bonita, is that right?

A That is right, and one of them is producing, reported to be about 40 barrels a day.

Q And the other?

A At a depth of 5131 and the other is just starting called their No. 2, depth 175 feet.

Q Yes?

A Then there is Pouce Coupe.

Q That is where?

THE CHAIRMAN: What was the last one you mentioned?

MR. NOLAN: That is Del Bonita, South East of Lethbridge.

WITNESS: Right near the American boundary, and in Pouce Coupe there are two wells, one known as the Batcheller Syndicate, which is standing until Summer; the other one known as the Guardian Oils, No. 1, at a depth of 720 feet. I am sorry that is wrong, that depth should be 2500 feet.

Q 2500 feet for that Guardian well?

A Yes, and then there is the Ranchmen's well near Aldersyde, at a depth of 7240 feet which is standing idle. I do not know whether they will be able to carry on there or not.

Q Now what happens up in the Wainwright area, Mr. Kolb, what is there up there?

A We do not get any report on the Wainwright area.

Q Well is this the Southern Alberta?

A It is principally Southern Alberta.

Q You have no report but do you know yourself from your own knowledge anything about the Wainwright area?

A No.

MR. FRAWLEY: I am filing an Exhibit showing the 1938 production up there. Concerning drilling development up there I do not know.

MR. NOLAN: Mr. Kolb does not know.

A No, I am not qualified to speak on that.

Q MR. NOLAN: Do you know if there is any drilling development planned in Saskatchewan, Mr. Kolb?

A No, I would not like to speak of Saskatchewan although I know from the press that there is drilling taking place.

Q That there is drilling taking place in Saskatchewan?

A Yes.

Q Do you know where?

A No, I would not want to say where.

Q What do you know about Manitoba?

A Nothing.

Q Do you know if there is drilling there for crude oil?

A Not to my knowledge.

Q You do not know about that?

A No.

Q Well Mr. Kolb, is there anything in this bulletin which you do not want to leave before the Commission?

A Oh no.

Q Would you like to make an extract from it?

A No, there are plenty of those around town, you can get those.

Q Without being a member of the association?

A Yes.

Q Thank you very much, may I offer this, sir, it being the Oil Bulletin and it is dated the 28th of January, 1939 and it is more particularly known as "Bulletin No. 65"?

(BULLETIN NUMBER 65 OF THE ALBERTA PETROLEUM ASSOCIATION PRODUCED BY THE WITNESS KOLB HERE MARKED AS EXHIBIT "159")

Q Mr. Kolb, I want to be quite clear about any of these companies, any of these prospective wells for Turner Valley I am speaking of now, where there may be some question of their having been financed or having been completely financed sufficient to enable anyone to say with some degree of assurance about when they will start. Would you mind just putting into the record the wells that you have included in your...whatever that figure was - of seventeen, and let me just make a note of them as you put them down?

A You mean those that are considered financed?

Q Yes, that you call the prospective drilling companies in Turner Valley?

A Anglo 4.

Q No question about that?

A Well, I would not like to give any opinion as to those who are doubtful.

Q When you say Anglo 4?

A We know of no reason why the names I am now giving you, why they would not complete.

Q All right, Anglo 4?

A Anglo 6.

Q Yes?

A Calwin. Command No. 2.

Q You say Command No. 2. They are all ready to go, are they?

A I understand so.

Q All right?

A Davolite.

Q Any question of financing there?

A From information that comes to me I would say not.

Q All right.

A East Crest No. 6.

Q Well, now, you say that your information is that is financed?

A My information is that they will carry on that well as soon as they finish the present one. They are dilling one at the present time.

Q Well, all right, go ahead.

A Extension No. 2. Home-Millarville No. 3.

Q Home-Millarville. Your information is that is going to go ahead?

A I take that, I make that statement having known that Colonel Spencer, he said it would. He was then president of the Home Company.

Q Perhaps, I should call your attention to the fact, so that the Commission will know, of them having wired me they were unable to make any definite announcement about their drilling programme. Their plans have not been completed. You say you went on what Colonel Spencer said?

A He gave an official statement to the press three weeks ago that they would carry on with one or two wells;

Q Yes?

A Royal Canadian No. 3.

Q Your information is that Royal Canadian will.....

A The derrick is up and men are working on it right now.

Q Yes?

A And there has been published a location for Royalite 39.

Q Yes?

A Valley Drilling Company No. 1, section 7, township 19.

Q Yes?

A And Valley Drilling Company No. 2.

Q You cannot be altogether sure of that?

A They are under drilling commitment to the C. & E. Corporation, to start that well within 90 days after the completion of the first.

Q Yes. And that is, I suppose, all one can say about that

second Valley Drilling well?

A That is all.

Q All right.

A Vantage, that well has been long shut down but it resumed about three weeks ago.

Q It has resumed. It is just commencing, is it not?

A They started about three weeks ago.

Q They have not got any depth?

A No. About 700 feet. Winalta.

Q Yes?

A I was told yesterday that the Inland would likely be starting within 30 days.

Q Yes. My information was they were not financed when I made enquiries?

A There is a Vancouver trust company now that is, I understand, financing it.

Q All right. That is the list, is it?

A That is the bunch.

Q All right, thank you.

Q MR. HARVIE: Mr. Kolb, in speakingof of these so-called wildcats, the wells that you have enumerated, are ones, I presume, that cannot be put in the class of ever having been or immediately apt to be abandoned? They are more or less active wildcats, whether they are drilling at the moment or not?

A Nothing but wildcats, all of them.

Q But as far as your information is concerned, none of these wells you have enumerated in your list of wildcats throughout the Province have been abandoned?

A None.

Q I have just made some notes here when I was listening to

your evidence. I did not hear you mention Green Valley well?

A I overlooked that one.

Q You might tell us where that is and what you know about it?

A Green Valley is south and west of Turner Valley. They have drilled about 1400 feet in the limestone but so far no commercial production. But they are.....

Q They are still drilling?

A They are continuing drilling.

Q Do you know about the Range Well?

A No, I did not bother with that because it was considered in the gas belt.

Q That is, anyway, where?

A South and east, near the boundary.

Q South and east of where?

A Of Lethbridge.

Q Of Lethbridge. Do you know anything about the Battle River area?

A No, we have not concerned ourselves with that area as yet.

Q Where is that area?

A That is near to the border in the Wainwright area, near to the Saskatchewan boundary.

Q In the Wainwright area?

A In the Wainwright area.

Q You know there have been some wells drilling in that district?

A Yes, sir.

Q Do you know of the so-called Lloydminster Deep well now being drilled?

A Only what I read. I find the Saskatchewan Government Department of Lands & Mines have made a test and they find

it a very heavy crude, with very little, if any, gasoline content.

Q That is at the present depth?

A Yes.

Q That is no deeper, generally speaking, than the other wells that have been drilled there?

A No, I do not know anything about the others.

Q The name would signify, Deep Well, that the test is to go deeper?

A Well, it is not a very deep well.

Q No. But deeper than the other wells in the area?

A I say I am not familiar with those wells.

Q Do you know anything about the drilling that is going on at Dina, or the production from that field?

A Yes.

Q Do you know that there is some?

A I know just through what I get through the press.

Q Do you know just where.....

Q THE CHAIRMAN: Where is Dina?

A In Saskatchewan, I believe.

Q MR. HARVIE: For record purposes, I might say it is south, in Alberta, south and east of Lloydminster about 35 or 40 miles.

Q That is all you know about that?

MR. COMMISSIONER LIPSETT: That would be in Saskatchewan.

MR. HARVIE: South and west, I should say. I am sorry.

A Yes, we have not concerned ourselves about that area as yet.

Q You know there are activities going on there?

A Yes.

Q In connection with Moose No. 1 well, just so the record is

kept straight, do you know whether that well has been abandoned or is being used for any purpose?

A It has been abandoned as far as I know insofar as attempting to carry it deeper but they do take gas from it.

Q In other words, it is a small producer of gas with a little show of oil?

A They take gas from that well to pump the No. 2 or drill the No. 2.

Q It was after they ran into mechanical difficulties they decided not to deepen that and they started drilling the No. 2 well?

A That is right.

Q And have recently run into production?

A That is right.

Q How far would you say the Moose Dome, so-called, would be from Calgary?

A By road or as the crow flies?

Q We will say as the pipeline would run?

A Offhand I would say about 35 or 38 miles.

Q If anything, closer than Turner Valley?

A Not very much.

Q Approximately the same distance?

A Not knowing, I would not want to say.

Q You mentioned you were not very familiar with the development going on in Saskatchewan. Can you tell me anything about many developments that you have heard of or otherwise in the Maple Creek area?

A No, I know nothing about that.

Q Do you know if there is any going on there?

A No, I do not.

Q And at Vera?

THE CHAIRMAN: What area?

MR. HARVIE: Maple Creek was the first area.

A That brings up Saskatchewan again and we are not concerned in Saskatchewan yet.

Q MR. HARVIE: I am quite concerned, and I am asking you. If you do not know just say so?

A No, I know nothing about the Vera district.

Q Do you know anything about the Vermillion well that is being drilled?

A No.

Q Near the town of Vermillion?

A No. We class that in the Wainwright area where we have not yet concerned ourselves.

Q You know there is a well being drilled there?

A Yes.

Q That is all, thank you.

MR. FRAWLEY: That is all, Mr. Kolb.

Q MR. PLOTKINS: I would like to ask a few questions. Mr. Kolb, can you tell us by whom are these wells being drilled?

A No, I cannot tell you that without my records.

Q You know that five of them are being drilled by Anglo Canadian?

A Yes.

Q What would you say, that the majority of the others were being drilled by private independent companies?

A Yes, I would say so.

Q Not Imperial Oil or their subsidiaries?

A No, I do not think the Imperial Oil are concerned in any of these.

Q Outside of these five Anglo Canadian, which are being drilled by Anglo Canadian and not by Imperial?

A Yes.

Q What, in your opinion, would be the position if any of these independent wells were to develop commercial production. Would they have a ready market for that oil, can you tell us, in the light of your experience?

A They would have a ready market if they had a fuel and if it were of marine quality, we would have a ready market.

Q What do you mean by marine?

A Fuel oil.

Q You say if these wells were to develop or find a heavy grade crude oil in sufficient quantities to be exported to the Coast they would find a ready market. Is that what you are saying?

A I would think so.

Q Yes. Well, have you calculated what it would cost to lay down this heavy fuel at the Coast in competition with the fuel oil available there to the boats?

A No.

Q Would you, in your opinion, say it would be feasible commercially?

A Yes, sir.

Q You would say it would be feasible, but you have never made any calculation?

A No.

THE CHAIRMAN: Is that the market Mr. Kolb has in mind? You said there would be a market if they developed fuel oil?

A At the Pacific Coast.

Q At the Pacific Coast. That is what you had in mind?

A Yes.

Q All right.

Q MR. PLOTKINS: And you had no other market in mind?

A Not of any consequence.

Q Not of any consequence, why do you say that?

A From correspondence that we have had.

Q What do you mean by correspondence. What did you get or what did you deduct from your correspondence that would lead you to believe that Imperial or some other refining company would not purchase this crude if it became available?

A Well, I have made no deductions to the effect that the Imperial Oil would not purchase it.

Q Then why would you say there would be no other market than the marine market?

A I mean by that that the market I referred to was for fuel purposes.

Q MR. COMMISSIONER LIPSETT: Do you know what the price of this fuel oil is at the Coast, Mr. Kolb?

A No, I do not.

Q Does not the question of whether this oil could compete depend on what the price of fuel oil is selling at out at the Coast?

A Well, we would compete with the California product. They have to take it quite a long way. It would be necessary that for any shipments made to the Coast that we would get the wheat rate, the same rate that they have to-day for wheat, which would be 56 cents a barrel.

Q For competing at the Coast?

A Yes, I have all that information, but not here.

Q MR. PLOTKINS: I did not hear. Did you say it would cost at the wheat rate 50 cents a barrel to take

heavy grade fuel oil to the Coast?

A That is our information.

Q I think Mr. Frawley has in front of him quotations for fuel oil at the Pacific terminal. If Mr. Frawley will be good enough to tell us what the quotations are we might compare that with the cost of 50 cents to lay it down, to see if it is practical.

MR. FRAWLEY: Crude oil or fuel oil?

MR. PLOTKINS: No, there is a quotation for fuel oil. Bunker C grade.

MR. FRAWLEY: You can find it a lot faster than I can.

Q MR. PLOTKINS: The rate on C fuel, I am reading from the National Petroleum News, January 25th, Exhibit "145", Pacific export markets, Grade C fuel oil January 23rd. Quotations varying from 60 to 70 cents a barrel.

A Where, at what point?

Q Any of the Pacific quotations are at Seaboard. Los Angeles in cargo lots, cents per barrel, or barrels where otherwise noted. That is at Los Angeles.

A At Los Angeles, yes.

Q I may clarify that situation further and say there is such a thing as a tank rate which governs these prices up and down the Coast. In other words, fuel oil Bunker C grade is quoted up and down the Coast at substantially the same figure so as to make the prices competitive. Now, Mr. Kolb, in view of these figures and in view of the facts of your statements that you have made, that assuming the railroads were ready to give you the grain rate, that you could lay down your fuel oil at Vancouver at a cost

of 50 cents. Would you say that would still be a possible market with only a 10 cent or a 20 cent margin?

A We are not in there refining or marketing any of it at all.

Q But as a producer, Mr. Kolb, you would have to market your production. You would, naturally, look around to see where you could do so?

A Yes. We work in conjunction with a committee at Vancouver, with the Vancouver Board of Trade, who are concerned with the handling of steamship rates and so forth and any information pertaining to that we get through that committee.

Q Is that your information at the present time?

A I have not paid much attention to it.

Q You are not in a position to say?

A No.

Q If it were lighter oil than fuel oil, and it is possible, is it not, to find 35, 40 and 45 gravity crude oil in Alberta in these wildcats?

A Anything is possible.

Q Yes, anything is possible, not only possible but probable?

A Yes.

Q Then you would have to find a market here in Alberta for that production?

A Yes.

Q Where would you turn to at the present time with any hope of getting a substantial market?

A We would put that up to the committee at the Coast.

Q The committee at the Coast?

A Yes.

Q What would you say an individual producer would be faced with in marketing his production?

A I am not able to say.

Q You do not know?

A No.

Q So that you are not in a position to tell us whether all the crude would automatically come into competition with Turner Valley crude?

A No.

Q If I suggested to you that unless the Imperial and the British American were willing to buy that crude that there would be no market of any consequence, in which to sell your crude, would that be correct in your opinion?

A I would not like to say that.

Q Would you believe that it would be practical for the Imperial Oil or the British American to build a pipeline from Calgary to any of these Wildcats after they struck oil in the first well or the second well?

A I have not gone into that.

Q In your opinion, would that be practical? Could you expect them to do that?

A Well, it would be governed by the quantity that they found.

Q If they found 200 barrels or 500 barrels; in other words, in the initial stages of developing a field.....

A I do not think they would think of establishing a pipeline to a wildcat unless they were assured of a reserve.

Q Then we come to the point where any wildcat proving a field, or at least any wildcat coming into production, would not become a serious factor until it had - until further development had taken place and proven the oil field?

A I would not think so.

Q And when that oil field became of sufficient importance then the refining companies would be faced with the problem of whether to buy that crude in preference to

Turner Valley crude?

A Or both.

Q Or both. Is it your information, Mr. Kolb, that at the present time the Conservation Board regulates production of these wells in other fields besides Turner Valley?

A I would not like to say what they will do. That would be their business.

Q It would not affect you as a producer?

A No.

Q Why do you say that, Mr. Kolb?

A Because we are guided by what they cause us to do, in any event.

Q So that if the Board said to you "You may pro-rate your well in Brazeau in keeping with the total market, the same as wells are pro-rated in Turner Valley," you could not produce except under those proration orders?

A That is right.

Q So that the Board has the power to fix deliveries of any well or any field in the marketing picture of Alberta?

A I would think so.

Q So that you are not free, after you have found the oil, to market that oil as you see fit under the present Conservation Board regulations?

A Well, you can market it according to the demand.

Q You are free only to the extent that the Board allows you to produce?

A And the demand for the product.

Q Then the Board in turn fixes that pro-ration, basing it on the available market?

A I would say so.

Q So that this Commission when it is considering the

threat of new oil fields in Alberta as applied to the earning capacity of the Turner Valley pipeline, should take into consideration the fact that these outside fields will be regulated as well as the Turner Valley field. Is that your opinion of what you know of the Act?

A I would not like to say what the Board may or may not do.

Q Well, do you know whether it is a fact, whether these fields under present regulations will be regulated?

A I do not think it has ever been announced.

Q Is there a possibility and even a probability that if any of these independent companies developing the wildcat fields do find production that they will sell to any purchaser that comes along and offers to buy out their holdings?

A That is up to that particular company.

Q Beg pardon?

A I cannot say what any particular company is going to do.

Q I mean in your experience in the past, that some company developed a wildcat - we have Turner Valley, for instance, to go by - and there was a big field, a prospect of a big field in front of them, they had pioneered and brought it to the point where it was going to be worth something to somebody besides themselves, well, has it not been the experience that some major company has been coming along and offering sometimes considerably more than it would be worth to the party that developed that wildcat and bought them out, has that been your experience in the past with what you know of the oil business?

A I have no direct information of buying and selling out companies.

THE CHAIRMAN: Any more questions?

MR. FRAWLEY: That is all.

Q MR. HARVIE: Mr. Kolb, in connection with an answer you gave, you mentioned that possibly the only market for any other crude oil field would be the Coast, as fuel oil?

A As fuel oil.

Q Yes, that is what I understood?

A That would appear to be the most logical market.

Q You possibly have heard the evidence given by Mr. Munro that he was using crude oil from Moose Dome, for which he was prepared to pay a premium over Turner Valley?

A No, I did not hear the evidence.

Q That was his wevidence, he was doing that. I am just suggesting that if some other similar field came in with some large production.....

THE CHAIRMAN: Mr. Munro when asked said that he would not continue to buy Moose Dome in preference to the other.

MR. HARVIE: I think he also said there were other reasons besides business reasons.

THE CHAIRMAN: No, he had personal reasons for getting his oil through Becker rather than going direct to the well.

MR. HARVIE: That may be so. My impression possibly goes beyond the evidence.

Q In any event, Moose Dome does produce a high gravity crude oil?

A That is what I understand.

Q And if it was produced in larger quantities would you think it would possibly, in some way or other, be able

to go into competition in the present market on the Prairies?

A If it produced a sufficient quantity I would say they would have to recognize it.

Q THE CHAIRMAN: Moose Dome, is that?

A Moose Dome, yes.

MR. HARVIE: The company is Moose Oils but the field is known as the Moose Dome.

Q MR. COMMISSIONER LIPSETT: That is Bragg Creek?

A That is Bragg Creek, yes.

Q THE CHAIRMAN: Is that what you call Twin Dome?

A No.

Q Twin Dome is quite separate?

A Yes, that is out on the Prairies and Moose Dome is right in the mountains.

Q Oh, yes, you did mention Moose Dome as well. Is Twin Dome an Anglo Canadian?

A That is right.

Q All right, any other questions?

MR. FRAWLEY: That is all, thanks.

(Page 4106 follows.)

SAMUEL COULTIS, having been recalled, examined by Mr. Frawley, said:

Q Mr. Coultis, you were going to produce the pipeline division budget for 1935, 1936, 1937 and 1938?

A Not 1935, sir, 1936 on.

Q All right, my notes said 1935, 1936, 1937 and 1938?

A Yes, 1936.

Q You produce the details of the physical capital budget for the year 1936 pipeline division?

A Yes.

(BUDGET PRODUCED HERE MARKED AS EXHIBIT "160".)

Q The next one?

A 1937.

Q These are the same details, capital budget for the year 1937, pipeline department?

A Yes.

(BUDGET FOR 1937 PIPELINE DEPARTMENT HERE MARKED AS EXHIBIT "161".)

Q Now, you have the same thing for 1938?

A 1938.

Q The details of physical capital budget pipeline division for 1938?

A Yes.

(PIPELINE DIVISION BUDGET FOR 1938 PRODUCED AND MARKED AS EXHIBIT "162".)

Q Now, Mr. Coultis, you told us the other day you were not allowed to carry over any unexpended portion of your budget from one year to another?

A That is my instructions.

Q Now, can you tell by looking at Exhibit "160" for 1936,

you budgetted for $48,400.00?

A Yes.

Q Any portion of that unexpended?

A Well, not that I know of at this date, sir.

Q Nothing that stands out in your mind with respect to that year 1936?

A No, sir.

Q Exhibit "161" for the year 1937, you budgetted for $368,000.00?

A Yes.

Q Can you tell me whether any portion of that remained unexpended?

A I would not be able to recall it at this date, sir. It would be very difficult to say whether you spent $1100.00 on the first item or the exact amount on any one item. This was our estimated at the time, the budget was prepared and I cannot recall whether we spent that exact amount of money.

Q No?

A I do not think it would be a balance by any means.

Q You do not think there would be?

A We would be probably over or under.

Q Very much, I mean, let me put it to you this way, do you now recall that you carried over or returned unexpended any considerable portion of your budget for the year 1937?

A I do not, sir.

Q No, I presume it is fair to say if you had left unexpended any very considerable portion of it, fifty or sixty thousand dollars, you would recall it, I take it?

A Yes, I think I would, sir.

Q Now, the year 1938, that is last year, you budgetted for a total of $502,300.00?

A Yes.

Q And did you spend all that money last year?

A I think we went broke.

Q You think you went over it?

A Yes.

Q Mr. Coultis, I want to ask you something about that new tank you are building, that pressure tank which is in your 1939 budget, because I was not very clear as to what use was going to be made of that tank, will you just tell me again briefly now what that part of your programme is exactly?

A That tank would serve to store absorption plant products or any other high vapor tension products that cannot be stored in an atmospheric or low pressure tank.

Q Well, now, what do you have in mind, you see, you have been transporting that same product for the Imperial?

A Yes.

Q And the British American all of last year, and right now?

A Yes, I have, sir, and all of that product, as I understand it, has been processed in one refinery.

Q In what refinery is that?

A In the Imperial Oil refinery in East Calgary.

Q That is what I understand too but then into whose tanks has it been going from the pipeline?

A I believe it has been going directly into the refinery oil company's refinery tanks.

Q From the pipeline to the pressure tanks owned and operated by the Imperial Oil Limited?

A I would like to modify that statement to this extent, that it has been passing through the pipelines of the Royalite pipeline division into the yards of the Imperial Oil.

Q Yes?

A Then from that point it is passed through refinery pipes to some certain tank, wherever they desire to store it, or hold it.

Q Yes, it has been drained off your trunk line in the yard of the Imperial Oil Company in East Calgary into their own pressure tanks to be looked after by themselves?

A Exactly, to be looked after by themselves.

Q Now, what change in the situation is there now which demands that you build these pressure tanks?

A Assuming that, since the British American are building a refinery.....

Q Yes?

A They desired part of that light product at their refinery it would possibly be necessary to store that product for the two companies or any other company that might be interested in that product, or assuming that there is someone would bring to production a crude-naphtha well similar to those white product wells in years gone by, where there would be a quantity of that product to handle.

Q Now, at the moment the Imperial is looking after their own requirements quite satisfactorily, they take it away from you at the pipeline and store it and use it themselves?

A Yes.

Q Yes. Now, is it right, would there be anything wrong in assuming that the British American would want to do the same thing, that you would be entitled to tell the British American to do the same thing, take it away from your pipeline over here in the refinery yard and store it themselves?

A If they can do so there would be nothing to prevent them doing it.

Q No, it only strikes me that you should not, if I may put it that way, concern yourself with the British American, let them do what the Imperial is doing, you are giving the Imperial what you think is fair enough service, are you not, why not put it up to the B. A. to do the same thing?

A The tank is put in there, sir, in the event that that problem would come up throughout this year.

Q For some other people, it would have to be either the B. A. or some other person?

A Or in case it was found necessary to store the products for all refineries or all purchasers or producers of that product.

Q I do not know whether I am spending too much time on it, it may not be important but I do not know why you would want to do anything more for the I. O. than you are doing now, why not leave that situation as it is so far as you are concerned?

A I am not insisting that he change his plan.

Q But he will change it if he thinks he can get you to store it for him, as you are storing his crude for him, there is no doubt about that, and that you are paying him rental for, is there any danger of him doing that?

A I do not believe any more danger than any other refinery.

Q Well, do you contemplate, let us understand it, do you contemplate that he may make the same use of this new tank that he is making of the tanks which you are renting from him now?

A In providing the terminal service for.....

Q For the I. O.?

A For other products.

Q Yes?

A He might possibly.

Q I just wanted to understand it.

THE CHAIRMAN: Just where is that item to be found?

MR. FRAWLEY: It is in the budget for 1939, building a ten thousand, it is on page 3 of the, I am reading, of course, from Exhibit "154", which is the whole Royalite Oil Company's budget but it is the same. It is in the latter section of that, but that does not, I should not be directing you to that, Exhibit "134" is for 1938. $20,000.00 the pipeline division is spending upon a 10 thousand barrel pressure storage tank at the pipeline terminal in Calgary, that is the item I am referring to.

THE CHAIRMAN: Yes, all right.

Q MR. FRAWLEY: Now, the only other refinery in sight which we have known of yet that uses your pipeline is the Lion Oils, and have you had any serious approach from them, or have you had them seriously in mind as somebody who would want to store plant products at your refinery terminal?

A I have never been approached to this date, sir, to handle that product for that refinery.

Q And if we eliminate now, assuming with me for the moment that we can eliminate the B. A. and the Imperial, would you spend that $20,000.00 to accommodate the other customer, the Lion Oils, for plant products storage?

A If there was volume enough to justify that expenditure, it possibly would be done.

Q Yes; now, do you anticipate enough volume of storage of

plant product for Lion Oils Limited to build this 10 thousand barrel pressure storage tank?

A One large naphtha well such as we have brought in in that field in the past would justify it, providing it was required for any customer.

Q Yes, that is what I am concerned about, not what might be created in the way of extra production, I am dealing with your relations with your three customers of which we know, at the moment?

A Yes.

Q And putting aside, I am only asking you for the moment to put aside any necessity to build this for your Imperial Oil, in view of present circumstances, putting aside any necessity of building it to accommodate the British American, let them build their own, now that leaves us with your third customer and I only put it to you, would you build this particular tank and spend this particular $20,000.00 for the Lion Oils Limited's accommodation?

A Possibly if his business justified it.

Q Yes. Well, now, do you anticipate or did you anticipate when you seriously asked the company for this $20,000.00 that Mr. Plotkins' business would justify that expenditure, just his business alone, Mr. Coultis?

A Oh, no, sir, no, no one company.

Q MR. FRAWLEY: All right, that is all, thanks.

Q THE CHAIRMAN: Mr. Coultis, you were to get some other things, you were to examine your Exhibit "134", it is "134", I think, your budget, and determine what was imperative and what was contingent, have you done that?

A Yes, "134" is the 1939 budget.

MR. HARVIE: May I interrupt and ask some questions on the point that Mr. Frawley just left, so that

we will be clear of that before starting other matters?

THE CHAIRMAN: Yes.

MR. HARVIE: Mr. Frawley has been trying to eliminate the B. A. in connection with the service they expect to get.

THE CHAIRMAN: All right, go ahead.

Q MR. HARVIE: Mr. Coultis, in connection with this pressure tank in your estimate I understand that at the present time your plant naphtha that is piped by you through your line from Turner Valley, that is piped directly to a tank of the Imperial Oil?

A Yes.

Q And do you know that the refinery of the Imperial Oil is at the moment being used partially for the refining of products belonging to the B. A.?

A Yes, it is.

Q Now, up to the present time are you familiar enough with the situation to say that that product, along with other products of the B. A. is being refined by the Imperial for the B. A.?

A I understand that is so, yes.

Q And you are familiar with the fact that the B. A. are now building their own refinery?

A I am.

Q Would it be fair to assume that they will then want their own plant naphtha?

A I am assuming that that possibly will develop. I have not been advised of that yet.

Q So far as you know, the plant will be in operation sometime in the present year?

A Yes.

Q And if it should develop that the B. A. does require the delivery of its own plant naphtha, will it be necessary

to supply, is that one reason why this tank will be necessary?

A Yes, it is, sir, and in the event of any company wishing to ship that type of product in tank cars there should be some central point with storage sufficient to load one or more tank cars.

Q And that is one service that is included in the present pipeline rate?

A Yes.

Q And should be included in any rate?

A I believe so.

Q And if the British American were required, as Mr. Frawley suggested, to build its own storage tanks of that nature at your terminal or somewhere else, it would be an additional cost which you say should be assumed in the pipeline rate?

A Well, that was the intention, sir, of putting that tank in, to give that service if it was found necessary to do so.

Q Would it be necessary to do so if the B. A. required their own naphtha to be delivered to them?

A Well, that is a matter that will have to be worked out with both companies. I have not gone into that phase of it with your company directly.

Q But that is a service which is usually included in the pipeline rate?

A Yes, I believe so, sir.

MR. HARVIE: That is all, thanks.

Q MR. FRAWLEY: Well, now, Mr. Coultis, at the moment Mr. Moore, the Imperial Oil Refinery, has pressure storage tanks as a necessary adjunct to his refinery operations?

A I believe he has, sir.

Q And Mr. Harvie's clients are now building a refinery?

A Yes.

Q I presume they will need to have storage tanks as a necessary adjunct to their refinery operations?

A They will have to have certain tanks. I do not know what provision they are making for any pressure tanks.

Q Well, I mean, is it not ordinarily a complement to an up-to-date refinery to have some pressure storage tanks, I mean somewhere?

A Mr. Frawley, I am not a refiner.

Q All right, we will not make even that assumption, at the moment, in any event, the Imperial Oil is storing their own plant products in their own pressure storage tank and you are having nothing to do with it and you assume no responsibility for it?

A That is right.

Q And it is going directly into these storage tanks from your pipeline?

A From the end of my pipeline through their pipeline.

Q Yes, and if you duplicate the present arrangements when the B. A. has built, then the B. A. would have its own storage tank and they would draw off the product from your pipeline a mile or so away, that is what would happen if the present arrangement is continued?

A You mean if they would build the pressure storage in their yard.

Q And transport it, as the Imperial is doing now, is that not reasonable?

A If the distance is not too great to use the pipeline pressure at that end to do it with, to pump it.

Q I would not know that?

A That can be done, it is not impossible.

Q I am only suggesting that they be asked to do precisely what the Imperial is doing at the moment, is there anything wrong in asking them to do that?

A No, there would be no harm in asking them, I do not know what their answer would be.

Q Now, you talk about loading, loading for shipment, outside the Province, or to other refineries?

A Yes.

Q Now, the Royalite is not doing that?

A No.

Q The Imperial is doing that?

A Using their loading rack.

Q Don't you think if they want to sell some plant products that they should look after the loading facilities and all that is involved in it?

A Well, they have been good enough to do it so far.

Q And got paid for it?

A Yes.

Q And got paid for it.

THE CHAIRMAN: Plant product, I suppose, don't bother about the glossary, we do not want it.

MR. FRAWLEY: That is in the temporary glossary which I gave you.

THE CHAIRMAN: I did not look at the temporary one, I was speaking of the final one.

MR. FRAWLEY: All right, that is all.

Q MR. NOLAN: No, go on, Mr. Coultis, will you please go on and tell the Chairman what you have done to divide the items in the 1939 budget into the two categories you were requested to?

A I have taken.....

Q You are looking at Exhibit "134", are you not?

A The budget for 1929.

MAJOR LIPSETT: Yes, it should be Exhibit "134".

Q MR. NOLAN: Thank you, all right.

A All of the items on page 1 I consider are necessary, or will be necessary throughout the year, the first four items on page 2 I also consider necessary.

Q MAJOR LIPSETT: The first four?

A On page 2. Item 5, the 3-inch lateral from separator battery in legal subdivision 4, section 1, township 20, range 3, west of the 5th, to tie to mains near No. 1 tank farm, 9,000 feet of 3-inch pipe, if a well is drilled in that subdivision this line will be necessary, and I understand that it is the intention to drill a well on that particular area.

The next item is 3-inch laterals to probable new independent locations, and the word "independent" there, sir, is used, because at the date of making out this budget I did not know where their locations would possibly be and it is contingent on drilling several wells, and if no wells are drilled by the independents from which we would take production that line would not be necessary.

The 4-inch laterals, from separator battery in legal subdivision 1-17-18-2-5 amounting to 3500 feet of 4-inch pipe, I believe, will be necessary.

Also the next item for 4-inch laterals, 19,900 feet of 4-inch pipe.

Tankage, the first item, purchase and install at No. 4 pumping station, 1-10,000

barrel tank fully equipped with vapor vent, foam chutes, heating coils, valves, swing suction, fire-walls, etc., either a 10,000 barrel tank or 2-5,000 barrel tanks will in all probability be required at that location to gather oil.

The next item of a thousand barrel tank will, no doubt, be either required in the south end of the field, west of the Vulcan-Brown area, in the large valley down there, or in the north end of the field.

On page 3 the first item, purchase and install 1-5,000 barrel tank fully equipped with vapor vents, foam chutes, heating coils, valves, and all the necessary equipment, will no doubt be required because I feel certain there will be at least 1-5,000 required in the south end and 1-5,000 in the north end.

The next item is the 1-10,000 barrel pressure storage tank at pipeline terminal, Calgary, that is contingent on the demand for that type of storage at the terminal.

The pumping equipment, No. 4 pumping station is required, at least will be required by Spring, and the field pumping equipment amounting to $40,600.00, I am quite certain will all be required as the field develops throughout the year.

Automotive equipment, there is only one item in that budget amounting to $12,400.00, which would amount to one small coupe which we have asked to be provided for an additional guager providing the field enlarges or should the north end develop. If that part of the field develops we will need that item. All other items

on that page we believe are necessary, and the next three items, the first three items on page 4, the office furniture and equipment for Calgary and Turner Valley as required. Those are put in to cover the entire year for our requirements in the way of permanent equipment that that office may require and I am not prepared to say that we will use that entire amount or possibly a little over it.

Q MAJOR LIPSETT: The last item given on page 3, Mr. Coultis, they are all necessary, you say?

A I believe so. I had them marked so, sir, on this.

Q THE CHAIRMAN: Those which you call""imperative" are really contingent upon the development of the field?

A Such as pipelines, sir?

Q Yes?

A Yes. On page 5, the fifth item, changes at the Calgary end of the trunk line, that I am not prepared to say is absolutely necessary but in my mind I believe we will spend that much money in making alterations in this end of the line throughout the year, and the last item then, additions to office buildings in Turner Valley and the building of a vault, we believe the vault is necessary, and it remains to be seen what development takes place throughout the year, whether it will be necessary to enlarge that office building.

Q THE CHAIRMAN: In addition to these, you were to get yourself more fully informed with regard to the connection with the Lion Oils?

A Yes.

Q Have you given any further consideration to that?

A Yes.

MR. NOLAN: May I offer in evidence, sir, what are suggested conditions governing a connection made with the trunk oil lines for the purpose of delivering oil to individual refineries. These are general conditions which have been discussed between this witness and Mr. McLeod and would be applicable to the Lion Oils or any other independent refinery.

A Yes.

THE CHAIRMAN: You are offering that as an Exhibit?

MR. NOLAN: Yes, I suppose it is an Exhibit.

(DOCUMENT SHOWING SUGGESTED CONDITIONS FOR CONNECTIONS TO INDIVIDUAL REFINERIES HERE MARKED AS EXHIBIT "163".)

Q MR. NOLAN: Well, now, Mr. Coultis, will you take this Exhibit "163" and add any word of explanation that you have to offer to the various conditions outlined there, numbering seven in all, without reading it into the record, perhaps I had better read it.

"Guarantee of the delivery of at least 150,000 barrels per year from each connection to the trunk lines serving refineries",

why is that condition suggested?

A Before we go to the expense of tapping that line and making the provisions to make that delivery we would like to be assured of a total annual delivery of that amount of oil.

(Page 4121 follows.)

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Q And Number 2. Refinery being served to supply ample tank capacity to handle shipments of a minimum of 3000 barrels per day of 8 hours, and a maximum of not more than 6000 barrels per day, and deliveries be made between the hours of 8 A.M. and 5 P.M. First a minimum of 3000 barrels per day of 8 hours?

A Otherwise there would be small quantities asked for continuously, which would be very hard possibly to meet and any refinery - I first thought of 5000 barrels there, but I think that any refinery could accept a week's supply at a time and I think that minimum is fair.

Q What about the maximum, not more than 6000 barrels per day?

A I would prefer not to have all of the connections, regardless of how many we have, all asking for a large quantity in one day.

Q So you put a limit?

A A limit of 6000 to each one.

Q Why are the deliveries to be made between 8 A.M. and 5 P.M.?

A To facilitate gauging and checking up the mains and tankage and other fittings for leakage, so that it can be observed if it should occur.

Q All right. Number 3. The Pipe Line Company will make connections into the trunk pipe line, placing at least one necessary side valve and other valves in the trunk line as found necessary, the cost of which is to be borne by the Pipe Line Company. The refinery being served to construct branch line between the trunk line connection and refinery storage

tanks at their expense. This line is not to be less then 4 inches in diameter and of a grade of pipe approved by the Pipe Line Company. Also, this line is to be tested for leaks in the presence of a Pipe Line Company representative. Now first of all I see that the cost of the valves, the side valve and other valves in the trunk line is to be borne by the Pipe Line Company, Then you go on and say that the Refinery Company served will construct the branch line between the trunk line connection and the refinery storage tanks at their expense. That is the Refinery's expense?

A Yes.

Q Why do you ask them to pay for that?

A I do not wish to send my man into the other man's refinery to do work. I think he should at least come to the trunk line to accept his oil.

Q You say this line is to be not less than four inches in diameter. Why four inches?

A In order that a reasonably rapid delivery could be made.

Q And of a grade of pipe approved by the Pipe Line Company. Why did you put that provision in?

A I would prefer to know that the pipe is not too badly worn out or of a secondhand nature that would give trouble or be hazardous.

Q And you say it has to be tested for leaks in the presence of a pipe line representative?

A Yes sir.

Q Now 4. Pipe Line Company representatives to have access to the refinery storage tanks concerned in

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this movement of oil for the purpose of strapping and making measurements, inspection of the tanks, fittings, and branch lines for leakage.

A Yes.

Q Well?

A I ask the privilege to inspect the tank in which I am placing oil, his valves and his branch line and all other equipment which would affect the measurement or the settlement for that shipment of oil.

Q 5. The Pipe Line Company to be advised a full 24 hours in advance when a batch of oil is required. What is a batch of oil?

A Anything between 3000 barrels and 6000.

Q According to the second condition here?

A Yes sir.

Q And you want 24 hours' notice of that batch being required?

A Yes.

Q Why 24 hours?

A So that I may have a man available to be on that location and take care of that delivery.

Q To turn the valve?

A Yes, and see that it is not tampered with on the main line, and hold sufficient main line pressure at that point to deliver the oil to his tank.

Q 6. Settlement of difference in price due to gravity to be made once each month. I suppose that is self-explanatory?

A Yes sir.

Q 7. Reimbursement for services of gauger constantly at this location while deliveries are being made. That

is your gauger?

A Yes.sir.

Q On the refinery premises?

A Yes sir.

Q You ask to have pay for him for his services?

A Yes sir.

Q Why?

A Because it is necessary to keep that man there to handle these valves and keep up sufficient pressure to deliver that amount of oil, and guard against leaks or trouble developing.

Q Trouble?

A Yes.

Q Did you have any trouble with your pipe lines recently?

A Well we are still having trouble.

Q What happened. Tell the Commission?

A We had a break.

Q What line is it in?

A In Number 1 line.

Q Where is the break?

A It has been located about noon. One break has been located, I do not know whether there is a second. At the North branch of Sheep Creek.

Q When did you first learn there was a break?

A Three o'clock yesterday afternoon.

Q How did you know there was a break?

A Our pressures dropped from 700 pounds to 300 pounds immediately.

Q Do you know yet the cause of it?

A Intense cold contracting the pipe line is my estimate.

Q You say one break has been found?

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A Yes sir. They are working on it now.

Q Does it follow that that is the only break in the line?

A No sir. I have no idea until we start pumping agzin.

Q You have to close the break you have found, pump again and see if the original pressure is re-established?

A And it will take some time because it will be necessary to fill the line in the location or in the district where the leak occurred and replace the loss, plus what has drained into the tanks at this end.

Q What was the temperature during the night, do you know?

A I believe it was 51 below in Turner Valley.

Q There was another task you were asked to do, but perhaps we had better go on with the discussion of this first.

THE CHAIRMAN: Yes, Mr. Nolan.

MR. NOLAN: I was going to say there was another task set us. That was he was going to estimate what it would cost to establish terminal facilities of the pipe line divorced completely from the Imperial Oil and its yards. You remember that?

THE CHAIRMAN: Yes.

MR.NOLAN: That has been done.

THE CHAIRMAN: Was Mr. Coultis concerned with that?

MR. NOLAN: He was the one and he was asked by Commissioner Lipsett, or perhaps by you to do that.

THE CHAIRMAN: I think we will withhold that until after the cross-examination on the other two matters, if there is any Mr. Frawley.

Q MR. FRAWLEY: Mr.Coultis, looking at

the proposed conditions on Exhibit "163", how does it differ, would you just tell me how it differs materially, if at all, from the general proposal, Exhibit "98"?

A I do not think "98" covers tapping the pipe line does it, Sir?

Q Well I take it that a person who avails himself - a company that avails itself of the proposed conditions on Exhibit "163" would still be governed, in part at least, by the regulations Exhibit "98", would it not?

A Oh yes.

Q That is what I mean. To what extent does this vary? We will suppose the Lion Oil Company accepts the proposals of Exhibit "163", to what extent are the general conditions modified or made more onerous by Exhibit "163"?

A I think they are made possibly fair to both companies. This is working - what I believe and Mr. McLeod believes, is a fair working arrangement where it is necessary to tap your trunk lines to give service in any particular district within a reasonable distance of the termination or the terminal end of that pipe line system.

Q Mr.Coultis, perhaps I am not making myself understood. We will assume the Lion Oil Company accepts these conditions, Exhibit "163"?

A Yes sir.

Q They are still bound by Exhibit "98", the general proposals?

A Yes.

Q Because this is the one that carries the rate?

A Yes.

Q They are bound by both of them, part one and part

[illegible]

[illegible]

[illegible]

of another. Is that the true picture?

A Yes.

Q To what extent are any of these conditions variations, material variations from similar provisions in "98", if there are any?

A Well I have not checked both of those outlines to check any particular variations, Mr.Frawley.

Q I will go over them one by one.I thought you could give me a brief statement of the material differences. Take the guarantee of delivery of 150,000 barrels per year?

A Yes sir.

Q If the Lion Oil Company was left as it is now under the existing arrangements?

A Yes.

Q Must they guarantee a delivery of at least 150,000 barrels per year?

A That is what is meant.

Q But if we leave the Lion Oil Company as they are now at the present time operating, or under exhibit "98" if that came into effect?

A Yes.

Q Are they bound to deliver to you 150,000 barrels a year?

A On this?

Q I mean on "98"?

A No.

Q That is one material difference then?

A This refers to taking delivery from the terminal tankage of that pipe line system.

Q That is Exhibit "98"?

A Yes sir. This is for direct connection.

Q That is Exhibit "163"?

A This is more convenient, or maybe it would be found by the refiner is more convenient for him.

Q Exhibits "163" and "98". Will you, for the record, refer to the present proposal as Exhibit "163" and Exhibit "98", otherwise we will be balled up.

THE CHAIRMAN: If not anyway.

Q MR. FRAWLEY: Now just look at Number 2 in Exhibit "163", and tell me whether that is an addition to the general requirements laid down in Exhibit "98"?

A The maximum number of barrels in each case....

THE CHAIRMAN: I think I will get Exhibit "98" if you will excuse me.

Q MR. FRAWLEY: You were saying under item No. 2 of Exhibit "163" that the maximum requirements differed from the requirements in Exhibit "98"?

A No, they are identical, 6000 barrels a day.

Q Wherein lies any difference between Item 2 on Exhibit "163" and Exhibit "98"?

A Exhibit "163" is made to cover one condition and that is tapping and delivering directly from the trunk lines to the refinery, while Exhibit "98" covers the delivery from the terminal tankage, but is largely made to govern the acceptance of oil in the field as well as transportation to the terminal tankage.

Q Yes. It is a general proposal?

A Yes sir.

Q It stands by itself and covers all your operations?

A It does, yes sir, largely.

Q Exhibit "163" is a special set of conditions for the purpose of delivering oil to the individual refineries?

A Yes sir.

Q It is at the delivery end?

A Yes.

THE CHAIRMAN: You have delivery made through the tapping of the trunk line?

A That is right, Sir.

MR. NOLAN: That is all we were asked to do in connection with this particular thing?

THE CHAIRMAN: Quite so.

Q MR. FRAILEY: Yes. Now in Number 3, Mr. Coultis, is there anything you want to call attention to as to wherein it differs with anything in "98"?

A There is no provision in "98" made to take care of the line condition.

Q That is the answer?

A That is the answer.

Q Thank you. Now Number 4. Anything there that relates itself to anything similar in "98", and if so wherein is the difference?

A In "98" we are naturally given freedom, or ask for it to go upon that property and gauge the tanks, set our pump and maintain same.

Q Right. In item No. 5 wherein, in Exhibit "163" you ask to be advised 24 hours in advance when a batch of oil is required? What is the similar provision in "98" if any?

A I am not prepared to say that is in "98", but it is considered that is the practice in the field, that if necessary we would be allowed 24 hours' notice of a

shipment of oil.

Q So there is no additional condition represented by "163" just in that regard?

A No, no particular difference, no sir.

Q No. 6. That is the same settlement provisions?

A Yes. That does not appear in "98" but it would be necessary to arrive at the same condition, or some definite period as balancing the value of the oil, is what it means, to the gravity.

Q And No. 7, that is a new one is it?

A Yes.

Q Nothing in Exhibit "98" about that?

A No there would be nothing in "98" with reference to that.

Q So much for the differences between Exhibit "163" and "98".

Q THE CHAIRMAN: Is that an additional man that gauges?

A That would be a man sent to that location and instructed to remain there to open the side valve, pinch down your pressure, close in the trunk line against the pump that sufficient pressure would be exerted on this branch line to the refinery to place that oil in his tanks, and to see that the main line pressure did not exceed a safe point, either on the branch line or on the main line.

Q You are delivering that to the Lion Oils now, and would you not not need a man attending to the business of delivery in determining how much was delivered?

A That is being taken care of at the present time by the Imperial Oil Refinery, and I assume that - I do

not know sir - but I assume.....

Q That is the delivery where the 6 cents is charged?

A Yes, and I assume that they have a man in their pump house who is possibly doing other duties there than around the one pump delivering directly to this Company. I would have no other duties or work for that man in this particular district during that time. Well I would not feel safe in setting those conditions and leaving. A leak might occur or a break, or in the case of an accident in the refinery or a fire, it would be necessary immediately to shut off that line to safeguard both the refinery and other property possibly.

Q MR. COMMISSIONER LIPSETT: Does that clause provide for the full time pay of the man?

A Yes sir.

Q Against the recipient of the crude oil?

A Yes sir.

Q MR. FRAWLEY: I understood from Mr. Plotkins that there was a man there now that did a job for two companies, for his company and the Bell Company?

A I know nothing of him. That is not any of my business.

Q It is none of your men?

A I do not know what company it is.

Q Now, Mr. Coultis, will you now tell me what the differences . . if any, there are between these conditions Nos. 1 to 7 suggested in Exhibit "163", and the arrangement which you presently have with the Imperial Oil Limited?

A What difference?

Q Yes? What are the differences in conditions which you

now propose to impose by "163" and the conditions which you imposed on the Imperial Oil?

A No. 1, they are taking 150,000 barrels a year.

Q Right.

A And they are taking a minimum in 24 hours of at least 3000 barrels?

Q Yes?

Q MR. COMMISSIONER LIPSETT: Is that the point, because it says the refinery being served is to supply ample tank capacity to handle that. In the case of Imperial Oil, Mr. Coultis, aren't you at the present supplying the tankage to the Imperial?

A I believe we are supplying some of it, sir.

Q By this $35,000.00 rental arrangement?

A By the 200,000 barrels storage.

Q MR. FRAWLEY: Mr. Moore told u that when he wanted a charge of crude, he simply went to whatever storage tanks had crude in them, yours or his own. It might be suggested that in that event you are paying in part at least for the facilities of handling the shipments which you say in item No. 2 of "163" the refinery must supply. That is so is it not?

A In case they require oil in any tank in their refinery yard, or their crude stills at any other location in that refinery yard, they supply the lines and the tanks to what we term our terminal tankage.

Q The Imperial Oil?

A Yes sir.

Q MR. COMMISSIONER LIPSETT: Does this clause mean, Mr.Coultis, that the refinery would have to have tankage for 6000 barrels?

A No sir, 3000 barrels. A minimum of 3000.

Q What about these words " and a maximum of not more than 6000 barrels".

A That possibly is not as clear as it should be, sir. What I am asking there is that he does not demand in an 8 hour period on any one day a delivery of more than 6000 barrels. If there were not some safeguard in there, a refinery with an 80,000 barrel tank would say "I want all my oil all at once, all the contents or the capacity of your trunk line diverted into this tank," and someone would be cut off.

Q As far as the recipient is concerned, all it compels him to have is a 3000 barrel tank?

A Yes sir. When you asked for this the other day I believe I offhand stated I thought we should have 5000. But Mr. McLeod and I have agreed on 3000.

Q THE CHAIRMAN: That would be a cost of what, roughly, Mr. Coultis?

A Additional cost?

Q Giving a horseback figure?

A I would assume that any refinery handling 300 barrels or more per day, would at least have 3000 barrels of crude storage. It would possibly cost him around $2800.00 or $3000.00 to erect that storage, providing whether he buys secondhand storage or what kind of a set-up it is. It might be a light bolted tank.

Q MR. COMMISSIONER LIPSETT: This 150,000 barrels a year in Clause 1, Mr. Coultis, that is approximately 450 barrels a day?

A About 411 I believe, in that neighbourhood.

Q Then this Clause 2 means he would have to have a

tankage for about a week's supply?

A Yes.

Q And take his oil from you once a week?

A Yes, about once a week, in normal times. If he was running heavier, as often as he could take 3000 barrels.

Q Does it follow from that that for one day's work in the week he has to pay the entire wages for the year of one man under Clause 7?

A The one man, yes.

Q In order to take delivery one day a week?

A Yes sir.

Q How long would it take to make that delivery of 3000 barrels, assuming he had the tankage there ?

A It would take from possibly 6 to 8 hours.

Q To put 3000 barrels through a 4 inch pipe?

A It would depend on how much we had to keep going through the trunk line to serve the other refineries or customers along the line. There are times when possibly it could be shortened.

Q Supposing everything was concentrated on this particular delivery, how long would that take?

A It could be safely done in half a day, in four hours.

Q It would take that approximately anyway?

A Yes sir.

(At this stage the Hearing was adjourned until 10.30 A.M., February 10th, 1939).

.....
.....

34

Province of Alberta

IN THE MATTER OF THE PUBLIC INQUIRIES ACT

—and—

IN THE MATTER OF a Commission, dated the 12th day of October, A.D. 1938, to inquire into matters connected with Petroleum and Petroleum Products

Commissioners:

The Honourable MR. JUSTICE McGILLIVRAY
(*Chairman*)

—and—

L. R. LIPSETT, ESQ.

Session:

CALGARY, Alberta FEBRUARY 10th, 1939

VOLUME 34

I N D E X

E X H I B I T S

.....
.....

SAMUEL G. COULTIS, having been recalled, examined by Mr. Nolan said:

Q Mr. Coultis, in reading over the evidence that you gave yesterday, have you any explanation you would like to offer as to the answer in respect of Clause 7 of Exhibit "163" which reads: "Reimbursement for services of gauger constantly at this location while deliveries are being made", in answer to Mr. Commissioner Lipsett yesterday did you say that it was your intention that that gauger should be employed all the time at the expense of the refiner throughout the month, every day of the month?

A No sir, I did not intend to infer that, I meant only the time he was engaged in those particular duties.

Q Yes, my impression was that the Commission had gathered from Mr. Coultis' evidence that he was there as a full-time man at the expense of the refiner, is that what you intended or not?

A Well---

Q What is he to be paid for?

A The time, full time that he is on that job.

Q And if it takes four hours a day he gets paid for?

A Half a day.

Q And if it is eight hours?

A A full day.

Q And if he does not work on certain days he would not get paid for that?

A No, I would not expect that.

Q MR. FRAWLEY: You see at page 4134, Mr.

[illegible]

[illegible]

- [illegible] -

[illegible]

[illegible] possible, [illegible]

[illegible] credible, in [illegible] evidence [illegible]

[illegible] respondent, [illegible]

[illegible] or other [illegible] or [illegible]

[illegible] credible "[illegible]" under "[illegible]"

[illegible] or [illegible] generally [illegible]

[illegible] delivery [illegible]

[illegible] [illegible]

[illegible] your indemnation [illegible]

[illegible]

[illegible]

[illegible]

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[illegible]

[illegible]

[illegible]

[illegible]

Commissioner Lipsett said this: "Q. Does it follow from that that for one day's work in the week he has to pay the entire wages for the year of one man under Clause 7? A. The one man, yes. Q. In order to take delivery one day a week? A. Yes sir", but now---

A I am very sorry I left that impression.If I did I misunderstood that, it was not intended more than his actual time on that particular job.

Q MR. NOLAN: That is the answer you want?

A Yes.

Q MAJOR LIPSETT: It was the word "constantly" in that, which impressed me but it can be read "constantly while employed"?

MR. NOLAN: Yes, it is not the best expression in the world but the intention now is that he is paid for the time actually employed.

WITNESS: May I enlarge on that word "constantly". I put that in with the sole intention, sir, that the argument might be raised "well it is not necessary to have that man there constantly during that delivery if he is classed as a gauger because he can go there and gauge the tank in the morning and come back some time at night and gauge the final delivery" but constantly, I want him there as a safe-guard on the trunkline and also that delivery to that refinery. I think it very well worth it, for both companies involved.

Q MR. FRAWLEY: Mr. Coultis, at the end of yesterday's evidence I was asking you to give us the differences between the conditions which you are imposing

by Exhibit "163" and the present arrangements which are in force from day to day between your company and the Imperial Oil Limited, and you have told me that they certainly complied with conditions 1 and 2 and that perhaps we have nothing more to say now about 1 and 2?

A All right.

Q Now what about No. 3, is there any material difference in this condition No. 3 and the present arrangement with the Imperial Oil?

A I do not think there is any material difference there, sir.

Q There is nothing more onerous in this condition than your present arrangement with the Imperial?

A I do not think so.

Q Then No. 5?

THE CHAIRMAN: No. 4.

Q MR. FRAWLEY: No. 4 I mean, you have that arrangement with the Imperial or is that something new?

A I have that arrangement as concerning the terminal tankage.

Q The terminal tankage?

A Yes.

Q You ask here that you want access to the refinery storage tanks concerned in this movement, do you have access to the Imperial's Refinery storage tanks concerned in their movement?

A No sir, I do not, they have a man on the job there constantly.

Q Does that mean any more,this does at least not impose any more expense on any company that would accept the conditions in "163", does it, do you propose to carry out

the work contemplated by item 4 at your own expense?

A That is of inspecting the lines.

Q Yes, and strapping and making measurements, inspection of the tanks, fittings and branch lines for leakage and so on?

A Yes, in this each, in the beginning, sir, during deliveries I would expect this gauger to keep track of that and that would be to the safety of both companies.

Q Yes, I am sure it would, Mr. Coultis, and I am only anxious to know if there is anything more expensive to putting it that way in connection with Mr. Plotkins or any other company accepting these conditions "163" and the conditions which you presently impose on the Imperial?

A There would be this difference, that in the East refinery yard I am satisfied that if a spill took place in there it would be entirely up to Mr. Moore's crews, while this is a separate branch line being run across country, possibly through subdivided properties and I would like to be assured that we could have a reliable man on that job to prevent any serious accidents that might arise.

Q Yes, you are speaking now of the line before it would reach the refinery property of the company accepting those conditions?

A I do not know what the boundary is or the boundaries are of this refinery in question.

Q Don't misunderstand me, I think it is quite proper if

I may say so that you should have access to the refinery storage tanks concerned in the movement and so on.

A I would insist on that.

Q Even on their property?

A Yes.

Q I was just wondering whether or not this is going to make it any more expensive for the company accepting those conditions than the expenses under which Mr. Moore now is under, under the similar arrangement with you?

A I do not think, sir, because it would be up to Mr. Moore to very closely check those lines as he does all these lines.

Q At his own expense?

A Yes.

Q Now No. 5, Mr. Coultis, you want to be advised 24 hours in advance, and do you impose the same thing on the Imperial Oil?

A If they were taking batches through an intermittent period, yes.

Q That is when No. 5 applies?

A Yes.

Q No. 6 "Settlement of difference in price to the gravity to be paid once each month", I suppose you have that arrangement with the Imperial?

A Yes, I believe that is taken care of at least once a month.

Q And then "Reimbursement for services of gauger constantly at this location while deliveries are being

[illegible]

[illegible]

[illegible]

[illegible]

[illegible]

Q [illegible] not this is going [illegible] the company agency [illegible] the opening under which [illegible] is placed, under the similar arrangement [illegible]

A I do not [illegible] that produce it would be my [illegible] [illegible] the lines as [illegible] [illegible]

Q As [illegible]

A Yes.

Q [illegible] to be derived [illegible] [illegible]

A [illegible] later [illegible] and [illegible]

Q [illegible]

A No.

Q Mr. Prettiman [illegible] the [illegible] [illegible] to [illegible] [illegible] you [illegible]

A Yes [illegible]

Q [illegible]

made", that is the one you explained this morning?

A Yes.

Q And does, what do you do with the Imperial in that regard?

A We have a full-time man at the terminal tankage to take care of and check shipments in and out.

Q Who pays him?

A We pay him, the Royalite Oil Company Pipeline Division.

Q Well that would be, that is a difference then, is it not, between your arrangement with the Imperial Oil now and the arrangement contemplated by Item 7?

A Well this man is checking hourly or at any time with our man during the day's shipping and he checks up the 24 hour gauges there.

Q You mean where now?

A At the terminal tankage.

Q At the Imperial Oil yard?

A In the yard, yes, where our tanks are located.

Q Well just in a word so that we can understand, are you now doing at your own expense the kind of work that you are asking to be reimbursed for under item 7 of "163"?

A Not beyond the pipeline company or division's property, that is checking the terminal tankage in that yard, he has no jurisdiction beyond those tanks within that refinery yard.

MR. FRAWLEY: I think that is all on that basis, Mr. Coultis.

THE CHAIRMAN: Mr. Harvie.

MR. HARVIE: No questions.

THE CHAIRMAN: Mr. Plotkins.

Q MR. PLOTKINS: Mr. Coultis, I am going to deal with this same Exhibit "163", the first item there is a guarantee of a delivery of at least 150,000 barrels a year from each connection to the trunkline serving refineries, what kind of a guarantee?

A I would want an assurance before I recommended the expenditure of company money to tap that line that during the twelve months' period that there would be deliveries made through that connection of at least 150,000 barrels.

Q In what form would you want this assurance, a cash deposit or an undertaking, a bond or what?

A I would want the assurance made in such a way that our solicitors would approve of it.

Q Your solicitors?

A Yes.

Q Well have you not anything in mind when you drafted this proposed condition, didn't you have any particular method in mind?

A Well I had this in mind, sir, I do not know whether it answers your question or not, the only thing I wished to be assured of, I didn't want to cut those lines, make connections and find that the refinery in question, whoever he is, takes 50,000 barrels or 10,000 barrels and says "well that is all I want to do, all the business I want to do with you". I would have a line full of holes and no reason for putting them in there.

[illegible]

[illegible]

[illegible]

Q So you are not in a position right now to tell us on what basis you want that guarantee?

A I just want you to guarantee or any refinery, that you will take 150,000 barrels during the twelve months' period, which gives me something, some reason to spend the money or interfere with that line to make that delivery, that is all.

Q Well would it not be better to put it this way, that you would satisfy yourself that the refiner in question making the application had a history or had in the past used the amount of crude that would equal that and it looked like the refinery had the organization to continue its sales and would give you in your mind that assurance?

A Mr. Plotkins, I am not a good guesser. I have to have some assurance and I am not, have never been equipped with a legal mind. I rely on our legal department to advise how those things should be drawn up. I am not prepared as to any agreement of that nature, that is what I would ask them to protect me from.

Q So that what you are saying in effect is that you will give us a definition of what you mean by guarantee so that it can be properly incorporated in a proposed tariff?

A Yes, I would ask our legal department to advise you to that effect or advise me so that I could advise you.

Q Well not me in particular, this is I understand, is going to govern conditions for any individual applicant for a pipeline connection?

A That is fine, yes.

Q [illegible] so you [illegible] not in a position right now to tell in [illegible] what you [illegible] that guarantee?

A I [illegible] from my guarantee or any reliency, but [illegible] the legal barrel, within the twelve [illegible] which gives [illegible] sound that, even [illegible] the most [illegible] interfere with the life [illegible] and defive [illegible] life.

Q [illegible] it not be better [illegible] within [illegible] then you [illegible] which you [illegible] the [illegible] in [illegible] making the application [illegible] or had [illegible] that used the [illegible] would equal [illegible] and it looked like the [illegible] [illegible] to [illegible] your mind [illegible] assurance [illegible] I do not [illegible] [illegible]. I have [illegible] some assurance and I [illegible] [illegible] equipped with a legal mind. I really [illegible] legal [illegible] advise [illegible] [illegible] [illegible] prepared as to [illegible] [illegible] what I would ask them [illegible] [illegible] So that that you are [illegible] [illegible] will give us a definition of what you [illegible] [illegible] that it [illegible] [illegible] family [illegible] family?

A Yes, I would ask my legal [illegible] [illegible] [illegible] offer [illegible] me as [illegible] I would [illegible] [illegible] [illegible] order, that is [illegible] [illegible] [illegible] dollars [illegible] [illegible] family [illegible] [illegible] [illegible] [illegible] [illegible] [illegible] [illegible].

Q So you should in fairness state your conditions so there is no question as to what they mean, otherwise we are not in a position to know whether we can comply with them?

A Mr. Plotkins, this is a very simple statement prepared by myself after discussion with Mr. McLeod in answer to a question by Commissioner Lipsett, would I endeavour to draw some sort of an arrangement which might meet this condition and I have done the best I can with it, sir.

Q Yes, but Mr. Coultis I suggest to you that you are, your department, your firm or the pipeline division, could demand a bond or a guarantee that the average man, even although he could consume 150,000 barrels, would not be in a position to supply it to your satisfaction, in other words, you would be in a position to discriminate if you did not make it clear?

THE CHAIRMAN: The witness has apparently said all he can say about that, what do you say, Mr. Nolan, about that?

MR. NOLAN: I say it would depend upon the particular circumstances of the particular case as to what would be required to give the assurance to the pipeline department that there would be at least 150,000 barrels per year. I agree with Mr. Plotkins that the past record of the particular refinery would certainly be something which must be taken into consideration if they were taking this amount, if they had the staff to handle it, they had the marketing arrangements to dispose of it, that would certainly be

something which must be taken into consideration.

THE CHAIRMAN: Yes, I mean I have no doubt at all that Mr. Coultis' position is well taken that, assuming the necessity for a guarantee, of which I am expressing no opinion.

MR. NOLAN: No.

THE CHAIRMAN: But assuming they were he says "well I do not know how one gets protection, that is for the legal department to determine", as he says. Well now I think I should mention to you, because it is in my mind, that there is force in what the cross-examiner is putting to the witness, that you might want a guarantee company's bond or you might want a deposit in cash of a sum that no small refinery could deposit.

MR. NOLAN: Yes.

THE CHAIRMAN: I just leave the thought with you and perhaps before you are through with this stage of the case you might, in conference with your principals, further define this.

MR. NOLAN: Of course what is the difficulty for me, the difficulty that presents itself at the moment is just to know exactly what we are doing here. If we are fixing conditions that are to attach to the carriage of this petroleum through the pipeline, then I say it will be for either this Commission or the Legislature or the Public Utilities to, if you like, sir, lay down the conditions that shall attach to this line of the operations and it may very well be that it will not be left to us as a matter of private treaty with someone to negotiate.

THE CHAIRMAN: Quite so. I do not know that we should embark upon this at all but Major Lipsett, I think with good reason, said "now it might be desirable to just make a recommendation as to the rate and not have a collateral dispute of this character about it", and instead of our dealing with that phase of our Commission which has to do with whether or not there is any discimination and so on, it is suggested by Major Lipsett it might be cleaned up now.

MR. NOLAN: Yes.

THE CHAIRMAN: And this collateral thing disposed of. If it is not of interest to the parties appearing, to do so, then I am merely pointing out to you that there is force in what the cross-examiner is saying, and if it is worth while putting this forward for our consideration, it might be worth while elucidating that guarantee.

MR. NOLAN: Yes, but I am not just sure that particular cases would not require particular assurance. You cannot, as it were, lay down a sort of general condition that would apply to all, as to the nature of the assurance they would give.

THE CHAIRMAN: Of course that is quite right but for practical purposes you have a particular case brought to your notice by the witness Plotkins.

MR. NOLAN: No.

THE CHAIRMAN: And there is a very concrete case and that is the one that Major Lipsett was addressing himself to when he suggested to the witness

Coultis that he talk the matter over with Mr. McLeod. Now we are perhaps going out of our way to just clean up a feature which would be a wholly collateral thing, but none the less one upon which we must make some finding.

MR. NOLAN: I have the point clearly in mind.

THE CHAIRMAN: Very well.

Q MAJOR LIPSETT: Could you say, referring again to this "horseback" figure, what the cost would be of tapping this line and doing what you propose to do?

A How much money, sir?

Q Yes.

A I had my engineer give me an estimate of that for cutting the line, placing a 6 inch valve in the line and one side delivery valve, and tying in the side line, $700.00. Now it is possible that I would require 2 valves on that side delivery line, which would raise that possibly $200.00, so that it would be in the neighbourhood of $700 to $900. There may be instruments required in addition to that if it is found necessary to put on recorders as to temperature or other such appliances but that does not include a meter, sir.

Q A substantial sum?

A Yes it is.

Q THE CHAIRMAN: You say that does not include a meter?

A That does not include a meter.

Q And you would have to provide a meter?

A I do not contemplate that, sir. I am not using meters on the terminal tankage nor in the field in gathering or delivering oil.

Q You say it does not provide for a meter, and a meter would not be necessary in your view?

A I do not think it is necessary.

Q MAJOR LIPSETT: Did you at the same time get an estimate of the rest of the work, that is the price from your connection at the trunkline through to the refinery?

A No sir.

Q You didn't get any figure for that?

A No sir.

Q THE CHAIRMAN: Could you give us a rough estimate and we will understand it is a rough one?

A Of the construction of that line, sir?

Q What you say Plotkins should pay for?

A I do not know the length.

THE CHAIRMAN: I thought we knew that.

MR. PLOTKINS: Roughly speaking it is 2000 feet;to our property line I think it is close to what you say, between 1100 and 1250 feet to our property line, which is all they would in any case construct.

MR. NOLAN: But Mr. Plotkins would still have the expense from the boundary of the property to the particular tank.

MR. PLOTKINS: Yes, but this particular condition contemplates that we are to go to the trunk pipeline so that is another.

MR. NOLAN: Let us say 1200 feet of 4 inch pipe.

MAJOR LIPSETT: From the trunkline to Mr. Plotkins' property?

MR. PLOTKINS: To the boundary.

THE CHAIRMAN: Yes.

MR. NOLAN: You know the approximate price of pipes.

(Go to Number 4149)

A A reasonably rough figure would be $1700.00 for a four inch pipe buried to a depth of 40 inches.

Q 40 inches?

A Buried to a depth of 40 inches deep. Two coats of asphalt and line covered. I do not know what your right-of-way would cost.

Q THE CHAIRMAN: Line covered did you say?

A Yes, completed.

Q And two costs of asphalt, and did you say something else?

A And the ditch filled and the ground levelled.

Q MR. PLOTKINS: That is on the basis of how many feet?

A 1200 feet. That might be slightly high and it may be a little low. I would bave to see the ground.

Q THE CHAIRMAN: You say that is roughly what?

A $1700.00, sir.

Q Then in addition to that there is the purchase of the right-of-way?

A Yes sir.

Q I suppose you have a statutory power to purchase that Mr. Plotkins would not enjoy?

A Purchasing material?

Q I am not familiar with all your powers?

A No sir. Every pipe line is a problem largely in itself, other than road allowances.

Q That is to say you have to pay for it?

A We do sir, various prices.

Q But you have the right to go through?

A Yes, I believe there are laws that allow us to go through.

S. G. Coultis.

Q What have you been paying for your right-of-way in properties which you would say are comparable with this?

A I am sorry, sir, but I do not believe I can answer that because I have not laid any lines in the City of Calgary except the trunk lines passing through the Burns property and I believe we paid 75 cents a rod on that particular line. But when you come into Mr. Plotkins' refinery, I believe that property is subdivided.

Q And it would be more expensive?

A Oh, I think so.

Q What area do you require for your right-of-way?

A 16 feet wide is our standard right-of-way.

THE CHAIRMAN: Mr. Plotkins, you can safely leave that question of guarantee and Mr. Nolan can address himself to that at some other time.

MR. PLOTKINS: All right, thank you.

Q Mr. Coultis, you keep yourself informed about current pipe line practice of your parent company's operations in Montana, which is close to home?

A No, I do not, sir, I am not familiar with any operations in Montana.

Q You are not supplied with any information from your parent Company?

A No sir. The only information.....

Q That would guide you in your work?

A No sir.

Q Would you say that the refinery situated at Coutts, for instance - I am going to take a specific case, because that will give us something comparable to weigh against the situation here?

A Yes sir.

Q That the Illinois pipe line which serves that, or did serve that territory, would you think a refinery on the Canadian side, which is still more complicated as to matters of right-of-way, there is an international line between them - would you say that the Illinois pipe line imposes conditions whereby the refinery is expected to go to the trunk line and connect at that point into its own refinery at its own expense?

A I do not know.

Q You do not know?

A I do not.

Q Are you in a position to find out?

A Yes, I think so, if I knew who to apply to.

Q Well, the conditions under which your pipe line - I am going to ask you if you know this - do you know if the conditions under which pipe lines are expected to give service comparable to what we are trying to agree on here?

A Yes.

Q In the United States are regulated by a body appointed by the Government, do you know that?

A The Interstate Commerce Commission?

Q No, in this case it is....

A The Board of Railway Commissioners of Montana?

Q No, it is a straight regulatory body. I do not know the name of it.

MR. FRULEY: The Montana Railroad Commission.

Q MR. PLOTKINS: The Montana Railroad Commission?

S. G. Coultis.

A I sent there, sir, and I have a copy of it. That is all I know of any operations on any lines in Montana, and I found nothing in there - as a matter of fact I did not look in it for this - we were dealing with the specific question here.

Q Well, would you naturally go back to precedent in order to establish a general rule to apply generally wouldn't you?

A Well I did not, sir.

Q So that you are not considering taking the experience of other companies so as to gain by their knowledge, which has been worked out over a number of years, and apply the principles to the situation here?

A If there were other pipe line companies in Canada operating under atmospheric conditions and temperatures and conditions that we meet in this country, I would be very glad to take all the information available. But most of the pipe line companies in the United States are operating in reasonably warm countries, outside of possibly some in Montana.

Q Why not take the Montana? The conditions are comparable?

A It could be done, sir. This is for a specific case. This particular answer here is for a specific case in Alberta.

Q You are in a position to find out anyway for your guidance in making amendments that you see fit, after you have consulted the conditions imposed by the Montana Railway Commission in similar instances?

A I believe it could be done. It could be looked up at least.

Q Do you know if the Illinois pipe line in Montana require -

or the tariff under which the Illinois pipe line operates covering the conditions that is referred to in this exhibit, require a guarantee?

A I do not know.

Q THE CHAIRMAN: I am just wondering, Mr. Coultis, supposing the owner of the property went to all of the expense that you would have in mind, he would necessarily have to go to, if he bore that share of the purchase which is contemplated in Exhibit "163", would not that in itself be a fair guarantee that he meant business, if he put his own money into this?

A He could take up that pipe line at any time he wished to discontinue this contract, and salvage his pipe.

Q There is nothing in this Exhibit "163" specifying how many years he will do business on your line, is there?

A No sir.

Q You haven't any assurance he will go on for more than a year anyway?

A No, I have not.

Q I suppose you would not feel safe in making a long term contract yourself, would you?

A No. The pipe will not necessarily cost him as much as my figures because he may not wrap that pipe, and he may not coat it. He might dig a ditch a foot deep or two feet deep and throw the pipe in it, which would make it that much easier to salvage.

Q And would you be content? How about the safety factors you have in mind?

A That is why, sir, I specify that my gauger or my man has the right to inspect that line for leaks after it

is laid or at any future time, because I do not know what type of line.....

Q Are you concerned with how it is laid, no matter who paid for it? Would you not be concerned with how it was laid?

A Within reasonable limits. I would not feel I had jurisdiction to go on that man's property and tell him how to lay his line.

Q You see this Commission is not holding a brief for Mr. Plotkins. I want you to understand that?

A Yes sir.

Q We are charged with the responsibility of finding out if there is any discrimination connected with this line?

A Yes.

Q And if there is some misunderstanding that can be levelled out, perhaps it would be the nicer way of dealing with it, and that is why we are pressing you about these considerations?

A Yes sir. I do not think, sir, that the 150,000 barrels was imposing any undue consideration on this particular case, because in Volume 9, Page 905, Mr. Plotkins asked Mr. McLeod, or stated rather, that actually the Lion Refining Company had purchased 140,000 barrels the last 11 months of 1938, an average of 420.72 barrels per day. So that it did not look unreasonable to me to ask for an assurance of 150,000 barrels in 12 months.

Q No, perhaps not. But I am just temporarily bothering about the form of insurance, which might prove to be a very serious obstacle. However, perhaps it would be

better to leave that until Mr. Nolan has thought about it. We are, perhaps, taking up time for nothing. It might be indeed that a letter saying that they would guarantee they would take so much might be enough?

MR. NOLAN: It is interesting to know what assurance Mr. Plotkins can give us of what he wants. It is two-sided after all.

THE CHAIRMAN: Yes.

Q MR. PLOTKINS: I understand that these proposed conditions are not only to cover the case of the Lion Refining. It is to cover any case that may arise?

A Yes.

MR. FRAWLEY: The British American is the other one coming up, I would think.

Q MR. PLOTKINS: It is conceivable that with continued development of crude oil resources in the Province, there will be other independent refineries starting?

A Yes.

Q You are just trying to lay down general rules, not to apply to any one particular refinery?

A That is right.

Q THE CHAIRMAN: That is so, but your mind none the less should be specifically directed to the Lion Oils, because all we have to deal with, with the question of discrimination put to us, the only discrimination suggested before this Commission is with respect to Lion Oils.

MR. PLOTKINS: I see.

Q MR. COMMISSIONER LIPSETT: Would it be possible, Mr. Nolan, to consider a re-wording of it in, somewhat in this form, that where the through put was less than some particular figure such as you indicate, that all the cost would be borne by the applicant for the facilities. That might get over it?

Q MR.NOLAN: Would it Mr. Coultis? The Commissioner suggests that a clause might be inserted that where the through put was less than a given amount, that all the cost should be borne by the applicant.

A I think that would lead to a great deal of argument, probably. I think it would be better, sir, to fix a minimum sum for a year.

Q But when the Commissioner speaks of all cost, he means the cost not of the initial connection, because we cannot tell about that until we do run it, but you mean that operating cost?

MR. COMMISSIONER LIPSETT: I mean the cost of.....

MR. NOLAN: The installation of the valve?

MR. COMMISSIONER LIPSETT: Yes, the installation of the valve which at the present will cost $7900.00. If the pipe line was protected against that outlay, then it might solve it would it? Perhaps you would like to think it over with Mr.Coultis? I just throw it out as a suggestion?

A The thing that I am mostly concerned with is to prevent applications for tapping these trunk lines indiscriminately. Somebody might want to accept one or two shipments

of oil in some particular locality and then discontinue. I would have a line full of valves and taps that eventually would be very dangerous.

Q MR. NOLAN: That is not my point. The point is you want to lay down a minimum or through put?

A I do, sir.

Q For these branch lines?

A Yes sir.

Q Would it satisfy you in your own mind if that was taken care of by making a provision that the applicant bore all the cost if he did not put through the required minimum. That is it is it not, sir?

MR. COMMISSIONER LIPSETT: Yes.

A I would not favour that, sir, because a man could arrange to, or make an agreement to take a large quantity of oil, or start to take a large quantity of oil and in the course of a month or two conditions might alter where that line installation was useless.

Q MR. NOLAN: But you would not have paid for it under this assumed set of circumstances?

A Nevertheless I would have cut into my line. I would have the same condition on these trunk lines whether he took ten barrels or a million, and have it left there. I cannot cut that line again and take all these valves out and I probably would leave the valve there and then there would become the question of settlement for the material left in that line.

Q MR. PLOTKINS: Let me put it to you another way, Mr. Coultis. Would you be prepared to guarantee that if the Lion Refinery, for instance, agreed

to comply with all your conditions, and guaranteed for the first six months to put through 75,000 barrels, and something happened to your pipe line and you were no longer in a position to make the delivery, what guarantee would you give that you would in spite of those conditions continue to deliver, so as to put the refinery in a position that it contracted for?

A I believe the pipe line will be there as long as a side delivery line requires oil.

Q THE CHAIRMAN: You are asked would you be willing to give a guarantee in your turn that you would make delivery of this amount which you asked them to guarantee to take? That is the question?

A I think so, sir, providing he has the oil to put through it.

Q Quite so.

Q MR. PLOTKINS: What would be the position if through Government regulations or Acts of God .....

THE CHAIRMAN: And the King's enemies?

Q MR. PLOTKINS: And the King's enemies, yes, there was no oil available to our refinery in Turner Valley. Or a competitive situation where we could no longer purchase our crude requirements in Turner Valley, and exist and compete - possibly the Imperial would be in the same position - it would discontinue its operations in Turner Valley, and go and get its oil somewhere else. What would be your position then?

A I would be in the position I would not give you a guarantee I was going to deliver 150,000 barrels a year.

Q So from a practical standpoint guarantees are not of

very much value in the oil business?

A Well we are still led to believe they are worth something.

Q In other words, your experience in the past is if we make contracts and we undertake to do things in good faith, but only to the extent of our capacity to do so, and if conditions change we get together and we review the situation and we say "Well we will have to alter our undertaking or our contract". Is not that the situation in the oil business?

A Pretty much so.

Q So that this question of guarantees should not loom very large. You must satisfy yourself that the firms - you must lay down conditions, I admit, that will reasonably protect you, but they cannot be hard and fast, you will admit?

A That is why we employ lawyers, sir, to do that for us.

Q Will a lawyer change anything to meet a situation if it develops that it cannot be carried out?

A He keeps us on the straight line.

Q You are very fortunate in having that type of a lawyer?

A Yes.

Q You have a pretty good idea of where our refinery, the Lion Refinery, is located in relation to your trunk line?

A Yes sir.

Q And the operation of making actual deliveries would be comparatively a simple one, would it not?

A Reasonably so, sir, if you had good connections and ample tankage.

Q It is a matter first of opening the value on the trunk

line. We will assume we are going to deliver right now?

A Yes.

Q I want to show that so as to gauge the operation?

A Yes.

Q Your man opens that trunk line valve that leads into the refinery tank?

A Yes.

Q And he goes to the tank he is going to deliver into and opens the valve there?

A He goes to the tank first.

Q By the way, let us clear up the situation there. What is the common practice of pipe lines in connection with the valve at the customer's tank, so that we can evaluate this question of safety again?

A In making a delivery?

Q Yes?

Is the block valve at the customer's tank not usually the property, or under the full control of the gauger of the pipe line company?

A The block valve?

Q Yes, the valve at the entrance to the customer's tank.

A No. I cannot say that on deliveries. I can say on receiving or accepting oil the valve belongs to the tank and the tank is this instance belongs to the producer.

Q So that what you are saying now is that at the present time the Royalite Pipe Line has not yet entered into the business of making deliveries direct to independents or direct to the refiners, and as a result of that you have not yet developed a technique to take care of that

situation.

A That is right, sir.

Q But you are familiar with the method that is done, that is used?

A Not too familiar, sir.

Q Not too familiar?

A No.

Q If I suggest to you the way it is done is that the Pipe Line Company, in our case the Imperial does it, puts it valve with a special fitting, that enables the Imperial gauger to keep that valve open and lock it in an open position, or to keep it closed and lock it in a closed position, and when he begins, or when he notifies our refinery that he is ready to make - or when the Imperial notifies our gauger that they are ready to make deliveries,, the Imperial gauger comes to our tank and opens up this valve and locks it in an open position and then he makes a gauge measurement in the tank. Would not that be in your opinion the operation that your gauger would be bound to do in this case?

A He would be instructed to go to your tank and examine your tank very carefully and see that there are no other draw-off lines open, and in all probability he would be instructed to place a lock on all valves in that tank during the period that delivery is being made, so that no oil can be drawn out during that interval. Then he would open the line into that tank from the trunk line, open up his trunk line valve, pinch down on the block gate in the trunk line to put sufficient back pressure in the line to

enable oil in the line to flow into your tank.

Q How would the delivery be completed?

A When the approximate amount of oil desired was delivered into that tank he would close off at the main line, close off at the tank, gauge the tank in the presence of one of your employees to verify that gauge or measurement, and release all the other valves in that tank and leave your property.

Q So that is the entire operation?

A That is as I see it, standing here, sir.

Q Well there is another matter I want to draw your attention to. That is the practice of a pipe line company to demand that the tanks into which they run have no other outlet, excepting the one that the pipe line company uses and they then remove their valve - that is in the case of the Imperial that is exactly what happens - so that in that case your pumper would only be called upon to disconnect a union. I might explain, I did not make it clear, and I want to explain it for the benefit of the Commission, so you will understand the operation, there are two valves. There is our valve coming out of the tank, and then there is a nipple on the outside of the valve?

A Yes.

Q And there is a union?

A Yes.

Q And then there is another nipple and then the pipe line company puts its valve there, and that is the valve which, when it is not in use, there is a block or a dead end, with a link and a chain so that no oil can be drawn out of the pipe line. Now that is the condition

that applies or pertains to our operations, and is the usual way for a pipe line to make that delivery and under those conditions. Now in view of that it would be simple.....

THE CHAIRMAN: Does the witness agree with that?

A That is one method, sir. The sole reason of going through all that is to assure yourself that someone else is not drawing oil off that tank at the time you are making delivery into it. Whether it is done one way or another, the sole purpose is for that assurance that you know that the oil you are putting into that tank is staying there till you have an opportunity of gauging or measuring how much you put in the tank. I do not know what the usual practice is throughout the different parts of the United States and Canada of making delivery. But I would want to be assured of that your men, through accident or intention, were not drawing oil off while I was making delivery to you. You would expect that.

Q MR. PLOTKINS: I would expect that but I am used to operating under definite regulations that places the responsibility, the respective responsibilities, and if you come along and make conditions that are hard then I may not be able to comply with them?

A It is not my intention to make any conditions unreasonable or hard.

Q I am not imputing that it is. What I am asking you to answer is whether you do not intend to define these different conditions, as is defined in the Montana regulations, all these things are laid down. And you admit you have no experience so that you are going

to have to develop a technique and it is now a good time for you or your department to advise us what your intentions are, and reduce them to writing. Would you agree that would be a reasonable request?

A I would consider it a reasonable request if you consider that necessary. I thought these small details could be worked out under a gentleman's agreement between the refinery and the Pipe Line Company. How we were to lock up his tank.

Q Well, Mr.Coultis, you have been with the Royalite Oil Company for a good many years?

A Yes sir.

Q You know that a small company such as the Lion Refinery, or any other similar company, is not in a position to go to your Company and ask to be treated on an equal basis, where they will deal with us just as ordinary equals?

A We have had dealings, Mr. Plotkins, and I have never had a complaint from you, sir, that you were not served satisfactorily, that I know of.

Q No, you are absolutely right?

A Thank you.

Q As far as personal dealings with the operating departments, that is perfectly right. But, Mr. Coultis, you know before I can approach your department, or our company can approach an operating department, the Head Office of the Royalite ,in this case, Mr. McLeod, has to establish a contract or a contractual relation, and then the conditions are laid down under which we must deal with you, with the operating depart-

ment and it is at that time that the Head Office in Toronto lays down all the details, and naturally under them conditions I am not in a position, or our Company is not in a position to go to you and say "Well now, this is unreasonable." Your answer would be, would it not, "Well I am sorry, but that is my instructions." Would it not be?

A It was not when you came to me and asked me to take delivery of the Sunburst oil. We made arrangements right in my office and I took delivery of your oil from the Sunburst, on one condition, that I would not take more oil from that well than the pro-ration allowable, so that I could treat you and that well in a similar relation to the surrounding wells in that district. I have heard no complaint from you, sir, and there were no - apparently no difficulties.

Q Are you unaware that before I went to you that the Company, through Mr. McLeod, had spent months in agreeing to do it?

A You were not dealing through me, sir.

Q I know that. So that you are not saying now I could have gone to you, and did go to you, and that you had the power to accept the oil without consulting the management. Is that what you are saying now, that you did on your own responsibility accept this oil without consulting the management?

A You and I made an agreement in my office that I should accept Sunburst oil and I did so.

Q So you do not know that there was a previous agreement with the Company?

A I know that you have called on Mr. McLeod but I do not

know what all your conversations or arrangements were.

Q Now, Mr. Coultis, if the Lion Refinery has to receive oil in minimum lots of 3,000 barrels, how big a tank would it be necessary for the refinery to have in order to receive 3,000 barrels?

A Probably 3,000, probably 3,100 barrels.

Q That is providing they were going right down to the bottom?

A Well, you would need to leave a little bottom room for bottom sediment, dead-wood.

Q So that your opinion is that it would take 3100 barrels?

A Tanks of that capacity.

Q If I suggest to you in order to make it workable it would be better to say 3500 barrels?

A That would be better.

Q That would be better?

A Yes.

Q So in order to take one delivery we have to have 1-3500 barrel tank?

A Tanks of that capacity.

Q Well, yes, we are agreed on that?

A Because I assume, sir, that you would not have run your refinery right down to tank bottom before you asked for deliveries, you would have some storage capacity there to keep going on, that is a small amount.

Q That is what I am trying to bring out?

A An amount of tankage for any refinery, small or large.

Q Wait a minute, in order to make it workable; in other words, in order to make it in practice possible to accept 3,000 barrels on one pumping a refinery would be called upon to have 2-3500 barrel tanks; otherwise, it would mean extra expense in pumping into another tank in order to permit the refinery to carry on while you were making another pumping,

S. Coultis.

is that not the practice?

A No, I do not think so.

Q You do not think so?

A No.

Q Well, why do you say you do not think so?

A Because you are inferring that you would want in storage in your refinery yard 3500 barrels or 3,000 barrels of oil on hand when you ask for an additional delivery, is that not right?

Q Oh, no, no.

A Then, why would you want 3500 barrel tanks?

Q For this reason, Mr. Coultis, I will put it differently, it would be necessary, would it not, in order to give you an opportunity to pump the minimum of 3,000 barrels and still permit current operations of the refinery, to have two tanks so that when you were using one tank you could pump into the other, would it not be necessary?

A Yes.

Q That is right?

A You would require though 1-24 hour supply for that refinery because you are giving me 24 hours' notice that you want more oil.

Q Yes, that is right?

A Yes.

Q You are not taking into consideration this, Mr. Coultis, that you have laid down a rule that we must accept ,3,000 barrels and a 24 hour supply, in the case of the Lion Refinery you say 500 barrels extra?

A Yes.

Q Well, now, we cannot have the 500 barrels in the bottom of the tank and say you pump 3,000 barrels in it, could we?

A I do not know what your system is out there, Mr. Plotkins. I have never been in your refinery and I am not a refiner but I believe that I could deliver you 3,000 barrels a day if you had sufficient tankage to keep your refinery running in the neighbourhood of 24 hours.

Q Well, you are asking me, Mr. Coultis, the rule you lay down makes it impossible for the Lion Refinery to operate, there is no question of being a refiner, it is just plain logic, plain common sense?

A I am not talking of refining, sir, I am talking about delivering oil.

Q But you are not willing to consider the problem of the refiner in accepting delivery of the oil?

A I prefer not to go into the refining end of it either from operations or storage.

Q So that you claim that we can operate our refinery with that one tank, a 3500 barrel tank, and in between pumpings shut down our refinery, is that right?

A Oh, no, no, you would not do that, I would not.

Q You do not have to be a refiner to understand the operation, you would be required to eliminate that operation?

A Another tank sufficient to keep you running while you took that delivery, which I specify should be made in 8 hours.

Q All right, so we will assume that we have another 500 or 1,000 barrel tank?

A Yes.

Q And you would be then, what would then be the position, would it not be that we have to pump from the 3,000 barrel tank into the 1,000 barrel tank so as to provide us with crude to operate on while you were refilling this 3500 barrel tank?

A No.

Q It would not?

A No.

Q Well, would you, how would you go at it?

A I would just open a valve when I had the 3,000 barrel tank full and it would run over into the 1,000 barrel tank and I would hold that there until I.....

Q Wait a minute, you told us while you were pumping into the tank, you would not allow anybody to interfere?

A Oh, I said when the tank was full and had a head on it, which would flow nicely over to your 1,000 barrel tank, it would just flow over there very nicely and that is your first operation after I leave the place.

Q I may be dense, but I cannot see how I am going to operate with two tanks, a 3500 barrel tank and a 1,000 barrel tank, and pump into both of them, as you suggest, from the pipeline and be pumping out at the same time from either one or the other tanks.

THE CHAIRMAN: The witness suggests when you have your 3500 barrel tank full.

MR. PLOTKINS: Yes.

THE CHAIRMAN: And the operation of pumping into that tank is over and done with, that you then, he says, fill your 1,000 barrel tank from that, which leaves, fill it by gravity, which leaves your 3500 barrel tank with 2500 barrels in it.

MR. PLOTKINS: Yes?

THE CHAIRMAN: And when you want some more, when you want 3,000, you have your o 1,000 barrel tank full and you order it and you get it, that is what the witness is saying.

MR. PLOTKINS: Well, it could not.....

Q. THE CHAIRMAN: Is that not right?

A That is so.

Q MR. PLOTKINS: Well, not actually, if I suggest to you, Mr. Coultis, that in actual practice that is not feasible, would you say then that the best way out would be to have two tanks?

A Well, I would not say it was not feasible because I can do it.

Q You can do it?

A With very little effort.

Q In view of the fact that you have stated that the operation is very, very simple, is a very simple one, and that, would it not be, or would it be unreasonable for our refinery to suggest to you that that figure of 3,000 barrels be made 1200 barrels?

A Or you might say 500 barrels.

Q The reason I say 1200 barrels, we now have 2-1500 barrel tanks, that is in that service that was acceptable to the Imperial Oil and is acceptable to the Imperial Oil, and we have invested the necessary money and those tanks are properly provided with the necessary fittings, etc., and would it be a burden on your department to make a pumping of 1200, a minimum of 1200 ?

A I understood, Mr. Plotkins, if you got the pipeline connection that it was your intention to purchase tanks in Montana and move them to your refinery and you were putting in extra storage there which you considered, a great deal, an additional volume of storage to what you have now, either at your refinery or up on the hill east of the refinery, so that you could store a quantity of oil.

Q You probably are referring to the plan which our company suggested to the Royalite Oil Company for the purpose of

jobbing crude oil, which has nothing to do with the refinery operation?

A I do not know what you intended to do, sir, I was under the impression that you were moving tanks in, but I could not catch up with where this location is going to be.

Q At the present time we have no intention of putting in any big storage tank because our operations at the present time do not warrant it.

A I do not consider 3,000 barrels or 3500, or two of them, if necessary, big storage tanks for any refinery.

Q No, but what would be the burden on the pipeline to make deliveries of 1200 barrels minimum, what would be the burden?

A It would mean sending a man out to your location at very frequent intervals.

Q Yes?

A And if we commenced taking deliveries of 1200 I would expect that I would shortly be asked to make 500, 300, and it is trying to set the thing up on some kind of workable basis that will apply to you or any other refinery requiring oil, and 3,000 barrels to me seems to me to be the very minimum figure that any refinery would want to bother with accepting.

Q Well, Mr. Coultis, you are not called upon in your operations to worry about finances, are you?

A Well, I just cannot spend all the money that I want to spend and get all the money I want to spend sometimes, I have to worry to that extent.

Q Quite proper, but I mean you are not called upon to find the money?

A I am expected to earn some money.

Q Oh, yes, so I am asking you to approach this entire subject, not from the frame of mind of a large company, but from the

actual facts as it would apply to a company such as ours?

A Yes.

Q And view it in that light?

A Yes.

THE CHAIRMAN: All right, I think, Mr. Plotkins, Mr. Nolan is quite alive to the difficulties which you by way of cross-examination have put forward and we are, perhaps, wasting time until we hear from him again, you see. It may be, indeed, that some of these things may be ironed out. If it is not it is the Commission's duty to concern itself with the question of discrimination. What findings we make are for us to say when the proper time comes but if in the meantime something, which seems fair and reasonable to everybody presently concerned, is arrived at, there is no necessity for our entering upon that subject. Now, I suggest to you, subject always to what counsel may say, that you let the matter rest until it has had further consideration,

MR. PLOTKINS: I am quite aware of the fact and I think that is a very sensible suggestion.

THE CHAIRMAN: Any other questions from Mr. Coultis?

MR. FRAWLEY: Not from Mr. Coultis. We were going into something else, Mr. Nolan, Mr. Woolley.

MR. NOLAN: That now means, sir, that for the convenience of visiting witnesses Mr. Coultis is going to step down.

THE CHAIRMAN: Mr. Coultis is just stepping down?

MR. FRAWLEY: Yes.

.....

LeROY EDWARD WOOLLEY, having been first duly sworn, examined by Mr. Frawley, said:

Q Mr. Woolley, you live in Toronto?

A Yes.

Q You are an official of the British American Oil Company?

A No, sir, I am the manager of the refineries.

Q You are manager of the refineries for British American Oil Company?

A Yes.

Q How many refineries have you under your supervision?

A Four, no, three, three in operation and one under construction.

Q Where are they?

A Montreal, Toronto, Moose Jaw and the new one here at Calgary.

Q And you have a property at Coutts?

A At Coutts, yes.

Q And what is the situation with regard to the one at Coutts?

A Well, that is being dismantled.

Q And you have another property At Calgary, the Bell?

A The Bell Refinery, yes.

Q And what is the situation with regard to the Bell?

A With regard to the Bell?

Q Is it operating?

A No, sir, not as a refinery, no.

Q Has it been dismantled as a refinery?

A No, sir.

Q It is still there?

A Yes.

Q It, perhaps, might be called a "stand-by operation"?

A Yes, it is a stand-by operation.

Q Now, you have a refinery at Montreal?

A Yes.

Q And what kind of crude do you run in the refinery at Montreal?

A East Texas crude.

Q And that gets to Montreal how?

A By pipeline from the field to the Coast.

Q At what point?

A There are three or four points there.

Q And then?

A Then by boat to Montreal.

Q By your own tankers?

A No, by tankers under charter.

Q And then to Montreal by tanker, all the way to Montreal by tanker?

A Yes.

Q And the Montreal requirements are unloaded there?

A Yes.

Q And then how about the Toronto requirements?

A The Toronto requirements are shipped by smaller tankers to Toronto.

Q Trans-shipped into smaller tankers at Montreal and shipped up to Toronto?

A Yes.

Q And you have, that is East Texas crude too, is it?

A Yes.

Q And you have a refinery at Moose Jaw?

A Yes.

Q And what kind of crude are you running there?

A We are running Turner Valley crude.

Q Turner Valley crude exclusively?

A We have not been exclusively, there is a small amount of Cutbank crude.

Q I mean in the year 1938, well, in this year to start with,

in 1939 have you been running some Cutbank crude?

A Yes.

Q How does that reach Moose Jaw?

A From Coutts, or rather from Cutbank through the pipeline to Coutts, and then by tank car from there.

Q So the subsidiary company, the Toronto Pipeline Company, is operating a line from the Cutbank field to Coutts?

A Yes.

Q No change at all in that line from Cutbank to Coutts?

A No, sir.

Q And then it is loaded into tank cars and shipped to Moose Jaw?

A Yes.

Q By the C. P. R.?

A The C. P. R., yes.

Q Now, at Coutts, you are not running anything?

A No, sir.

Q You did run some crude at Coutts?

A Last year.

Q Within the last year?

A Yes.

Q And that was Cutbank crude?

A Yes.

Q Now, why have you been taking in Cutbank, oh, well, what have you been paying for the crude which you have been taking from Cutbank to Moose Jaw within the last couple of months say?

A We have not bought any crude in Cutbank for the last year.

Q You have not bought any?

A No, sir.

Q You have not bought any crude in Cutbank for the last year?

A To my knowledge we have not bought any crude for about a year now.

Q Then the crude which you have used, just finish your answer, I am sorry I interrupted?

A Pardon me, the crude we ran, we ran a little bit last year and we finished it up this year, with crude which we had in stock at the time, I believe it was about this time last year, in the Spring of last eyear we started to run Turner Valley crude at Moose Jaw and we had a small amount of crude in stock over there.

Q Is that the only crude you have been running at Moose Jaw?

A Yes, just to clean up our stock.

Q There has been no recent movement then at all, even out of Cutbank storage over into Moose Jaw?

A There has been a recent movement, yes.

Q But that is out of storage at Cutbank?

A Yes, within the last month.

Q That is crude which was bought and paid for a year ago?

A A year ago.

Q Yes. Now, Mr. Woolley, you have been asked to come from Toronto to Calgary to give evidence before this Commission because of a suggestion that has been made, speaking for your company, there is a danger that you will have to stop running Turner Valley crude out, that you will have to stop shipping gasoline made in Moose Jaw from Turner Valley crude into the Manitoba area and you will have to replace that with gasoline made in Toronto from East Texas crude, you understand that is why you have been asked to come here?

A Yes.

THE CHAIRMAN: East Texas?

MR. FRAWLEY: East Texas crude, yes, Mr. Chairman,

is there some question about that?

THE CHAIRMAN: I thought it was Illinois crude.

MR. HARVIE: It is the same situation.....

MR. FRAWLEY: It was the Imperial Oil that had the Illinois.

MR.HARVIE: It is the same operation that exists so far as the Imperial is concerned with Illinois.

Q MR. FRAWLEY: Mr. Woolley has come all the way to tell us it is the same thing with the British American, it has only been recently that refined products have moved from Moose Jaw refinery to the Manitoba area, when I say recently, how long has it been?

A Well, now, into all of Manitoba, or what part; you see, Manitoba is usually our dividing line some place and when you say Manitoba we ship from both ends.

Q Now, was there a time recently, within the last year say, when the Ontario refined products were cut out of the Manitoba markets altogether?

A Yes, last year.

Q About when was that?

A I think early Spring of last year.

Q Yes, that is what I understood?

A Now, before that time.....

Q There was a time when refined products from Ontario came into Manitoba?

A Yes.

Q And now there is none coming at all from Ontario?

A I do not think so, a very small amount has been this last year.

Q The whole Manitoba area is, I understand, is now supplied

normally from the Moose Jaw refinery?

A That is right.

Q THE CHAIRMAN: You started early in the Spring of last year, that would be 1938?

MR. FRAWLEY: 1938.

Q MR. FRAWLEY: And at that time you began to occupy the whole of the Manitoba area with refined products made at Moose Jaw?

A That is right.

Q From Turner Valley crude?

A That is right.

Q And just for the sake of the record, you will remember whether that, it was at that time that the Imperial Oil Company moved their refinery products from the Regina refinery into the Manitoba area and discontinued making shipments from Sarnia to that area?

A I do not know that.

Q You do not know that?

A No, sir.

Q Now, Mr. Woolley, Mr. Harvie will examine you with respect to the extent of, the existence of and the extent of the threat of gasoline made in Ontario by your company from East Texas crude re-occupying the Manitoba area from the gasoline presently moving out of the Moose Jaw refinery made from Turner Valley crude?

A Yes.

Q MR. HARVIE: Mr. Woolley, just in connection with Mr. Frawley's remarks that you are here at the request of the Commission to give your company's views, your own views on the effect of use of Eastern crude or Eastern products, on the Turner Valley crude market in the Prairie

Provinces, that is why you are here, that is the summary of it?

A Yes.

Q And when the proper time comes in your evidence you are prepared and authorized by your company to speak as to the policy of your company in that connection?

A Yes.

THE CHAIRMAN: We could never have a more proper time, so far as the Commission is concerned.

MR. HARVIE: I thought, Mr. Chairman, after he has given the picutre.

THE CHAIRMAN: Oh, quite.

MR. HARVIE: During the course of the day.

THE CHAIRMAN: I thought you meant other occasions.

MR. HARVIE: I did not want any impressioni left that Mr. Woolley was not authorized to give the evidence you ask for.

THE CHAIRMAN: Oh, quite so. I wonder if you would mind, before you start, have Mr. Woolley tell us something about the company, about the British American Company, where its head office is and where its ramifications are, just so we may have the picture as we have had of the Imperial?

MR. HARVIE: Yes.

Q MR. HARVIE: Mr. Woolley, can you just give us some general details of what you might call.....

THE CHAIRMAN: In a very general way, Mr. Woolley.

A Yes.

Q MR. HARVIE: What we might call the set-up of your company and where it carries on operations?

A Yes, the British American Oil.....

Q May I just, at Mr. Frawley's suggestion, ask you how long you

have been with the company?

A I have been with the company for sixteen years.

Q In your present position?

A No, as manager of the Refineries I have been eight years, and then eight years before that I was Superintendent of the Toronto Refinery, that was our original refinery.

Q Your company, just go ahead and give us some picture of it, if I might suggest, it is a Canadian company organized in Canada?

A Yes.

Q And its operations are carried on where?

A The refining and marketing operations in Canada only from Halifax to just the other side of the Rockies. We do not go right over to the Coast, that is the marketing.

Q That is the marketing?

A And then the refineries, I have outlined the refineries already, and in the production.....

Q Just of that now, you carry on your marketing operations throughout Canada except in what we might call "Western B. C."?

A That is right.

Q Now, will you continue?

A The Company owns 100% of the British Americal oil producing company, a company, a subsidiary company operating in the United States with production in Oklahoma, Texas, Kansas, Montana and some other States. I am not familiar with the full set-up of the production company.

Q In connection with your Montana or your United States production, company, do you use your own oil in all instances or do you buy on the local market?

A No, sir, you mean do we refine at our own refineries the crude which we produce?

Q Yes?

A No, sir.

Q Do you do that in any case?

A We might. The producing company operates and purchases wherever they can and sells on the market at posted prices.

Q And you, as a refining company in Canada, buy on what we might call "on the open market"?

A We buy on the open market.

Q And not necessarily from your own company?

A No, sir.

(Page 4182 follows.)

Q And the picture you have just given in connection with refining and transportation of crude is reasonably complete?

A Yes sir.

Q Now, coming to the corporate set-up of your Company, You might just let the Commission - put on the record for the Commission's information.....

Q THE CHAIRMAN: Is it a Canadian Company? The B. A., Producing is a separate entity as I understand it, under your B. A. Canadian company?

MR. HARVIE: Yes.

THE CHAIRMAN: And what are its activities, only refining?

MR.HARVIE: Producing only. The Producing Company produces.

Q THE CHAIRMAN: What does the parent company do?

A The parent company is in the transportation business, refining business and marketing,

Q I see. Transporting - that is in the pipe line?

A Yes, not in the pipe line in Canada.

Q Transporting, refining and marketing?

A Yes sir.

Q MR. HARVIE: In other words the parent company carries on a general petroleum business in all its branches except production?

A That is right.

Q Just on that point. What production activities have you in Canada, if any?

A In Canada?

Q Yes.

A Production?

Q Yes.

A To my knowledge we have none.

Q You are familiar with the situation in Turner Valley?

A Not thoroughly. Not from the producing point of view, no sir.

Q That is something we can cover later?

THE CHAIRMAN: Yes.

MR. HARVIE: In connection with the corporate set-up, it is a Canadian Company, organized in Canada and are you familiar with the capital of the Company?

A No, I am not.

MR. HARVIE: I may be allowed to file some information on that?

THE CHAIRMAN: Yes.

MR. NOLAN: I was asked to do the same thing at one stage, and I said I could get a book, and I think the Commission agreed to that and I have the book here. I am sure the B.A., is in the same book. It is a reputable book. Would not that save a lot of time and trouble?

THE CHAIRMAN: We merely want something on the record showing these things.

MR. NOLAN: If this is offered in evidence I should direct your attention to Page 95 of the Exhibit. It gives, sir, the capitalization authorized, issued, directors, dividends, Head Office, subsidiaries and a general summary of the kind of operations that the Company carries on.

THE CHAIRMAN: That is exactly what I

had in mind. That covers your company in the same fashion?

MR. HARVIE: Yes, I think it does.

Q Mr. Woolley, I am producing the 1939 edition of the Financial Post. The name of the book is "Survey of Canadian Oils", and published by the Maclean Publishing Company Limited. At Page 50 I note that there is a summary of the British American Oil Company Limited, and I wonder if you might just look at it.

THE CHAIRMAN: On what page did you say?

MR. HARVIE: Page 50?

A Yes, I think that is substantially right.

Q Substantially you would say that is right?

A That looks like a very good description of our company.

THE CHAIRMAN: And you are offering the book as an exhibit?

MR.HARVIE: Yes, my Lord.

"SURVEY OF CANADIAN OILS", BOOK IS NOW MARKED EXHIBIT "164".

THE CHAIRMAN: Mr. Nolan, you asked us to have regard in Exhibit "164" to.....

MR. NOLAN: At Page 95 for information pertaining to the Imperial Oil Limited. I see we enjoy two pages, 95 and 96.

MR. PLOTHINS: I might point out there is also relative information for the Royalite, and that should be considered and pointed out.

MR.NOLAN: And perhaps Lion Oils is in this too?

MR. PLOTHINS: I do not know about that.

MR. FRAWLEY: He may not be in there but he is in here.

MR. PLOTKINS: I think we are in there. We did submit information.

THE CHAIRMAN: Oh well, we are taking the book in toto. We will find anything we want in it, about either the Lion Oils or the Royalite.

MR. HARVIE: This reference to the British American Oil Company I should state is on two pages, Pages 50 and 51, and I think possibly covers all the information the Commission wishes. The headings, if I may be allowed to read them are?.....

THE CHAIRMAN: Yes.

MR.HARVIE: It gives the fact that it is a Dominion incorporated company in the year 1909, and gives the detail of its head office, the Stock Exchange on which its shares are listed, the transfer agents, a long summary of the company which I would take to be the history of it. The names of its subsidiaries. The capital stock. The dividend record. Directors and officers. Funded debt and senior securities. Details of the producing company and the financial statements for the years 1935, 1936 and 1937. I think that is fairly complete.

THE CHAIRMAN: Yes, I think that is all we were inquiring into. It shows the subsidiaries of this company. Are there other subsidiaries that are not shown?

MR.NOLAN: Of B.A.?

THE CHAIRMAN: Of B.A.

MR. FRAWLEY: It professes to name all

the subsidiaries.

MR.HARVIE: Yes, Mr. Chairman. The wholly owned subsidiaries in detail. The wholly owned subsidiaries are The British American Oil Producing Company, a Delaware Company which owns and operates oil leases in United States. It also wholly owns the following.....

THE CHAIRMAN: Is that the producing company of which the witness is now speaking?

A Yes sir.

MR. FRAWLEY: Oh no.

A Yes, it is.

MR. HARVIE: It is the British American Oil Producing Company Limited.

THE CHAIRMAN: Yes.

MR. HARVIE: The British American Oil Company, the parent company, also owns, wholly owns the Toronto Pipe Line Company, a Delaware corporation, which owns and operates pipe lines in Texas and Montana. Then there are five companies operating tankers as follows:- Britamoil Limited, Britamolene Limited, Britamoco Limited, Britamlube Limited and Britamette Limited?

A That is right. That is what appears to be entire list of the subsidiaries.

THE CHAIRMAN: The one you describe as the parent company, the British American Oil Company Limited, the Canadian Company, is it in its turn a subsidiary of any other company?

A No sir.

THE CHAIRMAN: All right.

L. E. Woolley.

MR.HARVIE: The ohly information on that that I see here is that there is an authorized outstanding capital, par common 3,200,000 shares and 2,622,642 shares of non par value. There are also the particulars of some funded debts. I think, maybe Mr. Chairman, with your permission we are prepared to file a list of the shareholders to show the ownership, if it would be of any assistance, to show by whom the Company is owned.

THE CHAIRMAN: It might eliminate any question.

MR.HARVIE: I think it does eliminate what is in the Chairman's mind.

MR. FRAWLEY: That matter is the subject of correspondence between myself and Mr. Bronsden, the Secretary of the Company, at the moment, and when he comes not only will he have a list of the shareholders but he will endeavour to split it up and go into it quite fully as he did for me a couple of years ago.

THE CHAIRMAN: Insofar as this Commission may be concerned with unrestricted competition, it is of interest.

MR. HARVIE: I presume the point is whether the British American Oil Company Limited is in anyway directly or indirectly controlled or influenced unduly by other major oil companies. We will try and supply that information.

Q You said, Mr. Woolley, that generally speaking the Western Prairie Province market has been supplied by crude from Turner Valley, excepting a small portion.....

L. E. Woolley.

A That is last year you are speaking of?

Q Yes?

A Yes sir.

Q And that the Eastern Canada market is supplied from crude brought in by you from East Texas?

A Yes sir.

Q And refined in either your refinery at Montreal or Toronto?

A Yes sir.

Q During last year there was a portionof the market West of the Great Lakes supplied from the East. Western Ontario?

A Beg pardon?

Q There was a portion of the market West of the Great Lakes supplied from the East last year?

A Yes sir.

Q The majority of Manitoba would have been supplied though last year from the West?

A Yes sir.

Q That situation is now subject to change in view of the change of the crude price?

A Yes sir.

THE CHAIRMAN: I wonder if you would clear up for me, if this witness can, just why the producing company would sell its oil on the open market, and the parent company buy its oil on the open market. If, by any chance, the producing company could get cheap oil, why should not firstly it give the benefit to the parent company of that oil. I want to understand, if I may, ere I am through, why

these divisions into companies where you are not concerned with regulations. Why treat them as strangers when they are working to the common end, the profit to the shareholders who have invested their money in the corporation?

MR. HARVIE: I think that can be readily done, Mr.Chairman.

THE CHAIRMAN: You see my thought?

MR.HARVIE: Yes. I think the matter of location of where that crude is produced has a great deal to do with it. I would suggest that if Mr. Woolley can answer it, fine, but I would gather that Mr. Bronsden, who is the comptroller of the Company, would be maybe a better witness in that regard. Mr. Bronsden is presenting himself here later.

THE CHAIRMAN: Yes. When do you expect Mr. Bronsden?

MR. FRAWLEY: Not during the pipe line inquiry.

Q MR.HARVIE: Are you in a position to answer that?

A I think I may clear up just a point there.

Q Go ahead and do it.

A Without going into a lot of detail.

Q THE CHAIRMAN: Quite?

A The reason I say we sold our production in the States and buy other crude is our production may be in Kansas or Oklahoma, and we have no means of having that transported to us. We may have some production in East Texas, as we have, but we have not enough down there under pro-ration to supply our demand. So we have to buy

additional East Texas crude to make up our balance for our Eastern refineries. But where we are selling crude in Oklahoma and Kansas, we would be buying it in the East Texas field.

Q MR. HARVIE: Is it the transportation cost?

A The transportation cost. It is all a matter of transportation.

Q THE CHAIRMAN: You would always take your own products?

A Yes sir.

Q Only where it would be too expensive for transportation reasons?

A Yes.

Q So it would be profitable for another corporation, that you should take it?

A That is right.

Q MR.HARVIE: On that point, do I understand that if it was economical and money was to be made out of selling your own crude and buying another crude cheaper, that would be your policy?

A Yes sir.

Q In other words you would buy for refining purposes the cheapest crude?

A Exactly.

Q Regardless of what crude you had of your own in the producing company?

A Yes.

THE CHAIRMAN: I suppose someone would consider how far it would be wise to let your producing

company go broke, since you own it?

MR. HARVIE: Is not that really looked after if I say it is on an economic basis. If they could save money by doing that. If they could not save money they will naturally take their own crude.

THE CHAIRMAN: Yes, if the condition is permanent but you would not break your subsidiary for a temporary advantage in the market would you?

MR. HARVIE: Mr. Woolley might, he is the refiner?

A I might do that. I might want to do that.

THE CHAIRMAN: It would not seem as though the directorate would consider that very far seeing?

A The other Company might have something to say about it, yes.

MR. HARVIE: However, I suppose that is something Mr. Bronsden can tell us about.

THE CHAIRMAN: If the condition is permanent it might be well for your subsidiary to go overboard, but what I have in mind is a temporary condition that would be set up for today or tomorrow or this year, does not create such a situation.

MR. HARVIE: That is something I will direct the Company's attention to and ask them to tell you about it.

THE CHAIRMAN: Yes.

Q MR.HARVIE: We are meeting now a changing situation brought about, I understand in your case through a drop of crude prices in Texas crude?

A We have met it.

Q Yes?

A Yes.

Q There has been a drop in the field price of Texas crude?

A Within the last four or five months.

Q This has affected the Western Canadian market?

A Yes sir.

Q Can you give me what the change in prices has been over that period, Mr. Woolley?

A The price of East Texas crude dropped from $1.35, I think it was, to $1.10.

Q Over the last six months or so?

A Yes.

Q That is a drop of 25 cents?

A Yes.

Q Now that being the case.....

THE CHAIRMAN: Just ascertain if you can, Mr. Harvie, how that drop was effected; how the price is created; how it is maintained and how it is increased or lowered.

MR.HARVIE: That is the crude?

THE CHAIRMAN: Yes, the very thing you are speaking about. How did it drop from $1.35 to $1.10? Somebody dropped it. Somebody said "We won't pay any more than $1.10".

Q MR. HARVIE: Can you give me any light on that?

A I am afraid I cannot help you on that. That is something that is settled by, I imagine, supply and demand, and regulations.

THE CHAIRMAN: We have had some evidence,

for example, that the Imperial Oil fixes the prices of Turner Valley crude in Turner Valley by naming a field price?

A Yes sir.

Q Presumably that is in the light of what prices are obtainable in competitive fields?

A Yes sir.

Q At the moment I do not see how anyone could prevent the Imperial Oil naming any price it liked in Turner Valley and the condition would obtain, for the time being at that price, if there were no other buyers. I am just wondering, we are speaking of East Texas....

MR.HARVIE: You are not suggesting there are no other buyers, are you, Mr. Chairman?

THE CHAIRMAN: Well other buyers who are willing to pay a higher price. We have been told thus far, Mr. Harvie, that the price is fixed in Turner Valley by the Imperial?

MR.HARVIE: Yes.

THE CHAIRMAN: And the impression I have at the moment at least is that the B.A., follows and pays that price, no more and no less.

MR. HARVIE: That is true.

THE CHAIRMAN: I put it to you for consideration, if the Royalite or the Imperial - I just forget which, names the price. The Royalite is it not?

MR. FRAWLEY: The Imperial.

THE CHAIRMAN: Oh yes, the Imperial named a price tomorrow 20 cents lower than it is today, the B.A., would follow suit?

MR.HARVIE: I think there is no doubt

about that.

THE CHAIRMAN: And the producer could then take it or leave it, but he would have to like it if he wanted to sell his oil. I say that is the impression I have at the moment. But we are dealing with a witness who is speaking of East Texas, and talking about the drop in crude prices, and I want to know how that drop is effected, if I can.

Q MR.HARVIE: Are you able to throw any light on that?

A I am afraid I cannot help you on that. We are only a small buyer in East Texas. I think the East Texas field and the Texas field produces about four or five or 600,000 barrels a day, something like that. Our small bit in there .....

Q How small is your bit?

A I think we used about in the neighbourhood of about 4,000,000 barrels a year in the East.

THE CHAIRMAN: Supposing, Mr. Harvie, for example, it has a bearing on this pipe line, supposing the Imperial tomorrow fixed the price at which no producer could produce, and B.A., followed suit, what would happen to the field?

MR.HARVIE: I have my views on it.

THE CHAIRMAN: Really it would belong over night to the Imperial and the British American, for all practical purposes.

MR.HARVIE: I think the witness is not capable of answering that. I know a good many people have been trying to find out for a good many years about this. I imagine it is a matter of evidence

from an expert on economics.

THE CHAIRMAN: We are being told - I mention these things to Counsel so that they can give their minds to it now rather than when we go into conference at the end - we are told that cheap Illinois and cheap Texas oil would affect this pipe line run. You could affect the pipe line run too by just saying "We won't pay the price" and you do not need to talk about Illinois or Texas or any other place. If a person, any one person, or corporation or corporations can say tomorrow "We won't pay a price that will allow oil to run through this pipe line."

MR. HARVIE: That is the situation. That is one situation as far as Turner Valley field is concerned.

THE CHAIRMAN: That can be arbitrarily fixed.

MR.HARVIE: I do not know what evidence our company can submit that would be of any assistance to you on that point. If you can suggest any we would be glad to do what we can. On the other hand we submit this, that we are a small producer in the East Texas field where there is an open market.

THE CHAIRMAN: You say, however that price is fixed in East Texas you do not do the fixing of it? You have to pay that price?

MR. HARVIE: Neither there nor in Turner Valley do we fix it.

THE CHAIRMAN: Quite so.

MR.HARVIE: We did fix it on one occasion in Turner Valley but that situation has changed.

THE CHAIRMAN: It may be that at the moment we are, perhaps, concerned with that phase of it. I do not know. That is something that all Counsel may consider, and they may think it is not our concern, or they might think it is, and no doubt in due time give us their views.

MR. COMMISSIONER LIPSETT: There is the other point of view. Supposing instead of reducing the price of Turner Valley crude, supposing it was raised 30 or 40 cents and you followed it, you might be in a position owing to Illinois where you could not supply your Moose Jaw refinery at a payable price. You might not be able to supply your Moose Jaw refinery on the one side, and also on the Manitoba market you would be supplying from your Toronto refinery?

MR. HARVIE: Yes. That is the position anyone in the oil business is facing every day. It is purely a matter of competition. It is a matter of protecting your interests and to suggest one move this Company is now doing, that might illustrate the point is building a refinery in Calgary today to protect that situation. There are other moves that are being made every day to meet the situation. There is a possibility theoretically that they may be as you suggest, faced by a situation where they could not compete, in which case they would be eliminated.

THE CHAIRMAN: You see a suggestion is being thrown out here that is permeating this evidence, we have different fields, producing fields, and in a measure they are controlled by large corporations. Well, if a large corporation says in a competitive field

here, the price is going to be 90 cents, and some subsidiary may point to that price as a standard of excellence, a basis on which payment will be made, that crude oil is so much in Mid-Continent or Cutbank or anywhere else you like, and it does not control the competitive price at all. It can be played on back and forth.

MR.HARVIE: That is possibly so.

THE CHAIRMAN: Those are just thoughts that come to me and I do not know that I should not express them before we reach the end of it, or of this phase of the matter so that Counsel....

MR. HARVIE: I am certainly glad to have your expressions and to be able to give them consideration. What help I can be in it I do not know.

(At this stage the Hearing was adjourned until 2 P.M.)

.....

LEROY EDWARD WOOLLEY, having been recalled, examined by Mr. Harvie said:

Q Mr. Woolley, just before the adjournment the Chairman intimated that he would like to get any information that was available through you or other sources as to the possible explanation or reason for the price reduction in taxes and I do not know that I gave you an opportunity in my questions to say whether you could give any information on that or not.

A Well I do not think that I am qualified to answer that and all that I could do would be just to give you my own personal opinion from what knowledge I have.

Q Yes?

A I think that East Texas crude coming into competition with Oklahoma City or Oklahoma crude and Oklahoma crude coming into competition with Illinois crude, with Illinois crude in the past year or two, has had some effect on the other crude in the United States, the East Texas field and the Texas fields in general are run under proration, a very low proration and Oklahoma City likewise, and with this large field in Illinois coming in, which is not yet under any conservation regulation, there is bound to be some competition and have some effect on the other crude being produced in the United States and furthermore the Texas crude comes in competition with Mexican crude, the Venezuela crude, other South American crudes and crudes of the world and of course world conditions are rather unsettled and it is pretty hard to tell what factors would

enter into a price reduction or price rise.

Q THE CHAIRMAN: Is it not to be anticipated that the Illinois field will be prorated or exhausted as the case may be?

A No, I think it is to be anticipated that it will be, as a matter of fact I think, I think, in fact I have read this just recently that there has now been a commission appointed by the State of Illinois and they are visiting in Oklahoma and Texas to investigate regulations in those States.

Q So that would change the picture again perhaps?

A That might, yes.

MR. HARVIE: Do you care to pursue that any further?

THE CHAIRMAN: No, just go ahead with anything you wish, Mr. Harvie.

Q MR. HARVIE: Now Mr. Woolley, in mentioning the crude you were using, you said your refiners in the East were using East Texas crude?

A Yes.

Q Is that the complete picture?

A No, I omitted to say that in our Imperial Refinery we also run a small amount of Venezuela crude, amounting to possibly 3 or 4 hundred thousand barrels.

Q And why is that necessary or desirable?

A Well the Venezuela crude is imported specially for asphalt manufacturing.

Q Well will there be a similar situation possibly develop in your Western Canada market, that you may have to bring in something other than the Turner Valley crude?

A There might be.

Q That was what you have been using the Montana crude for?

A No, we were using Montana crude primarily to make gasoline, kerosene and distillate.

Q THE CHAIRMAN: You said the Venezuela crude was imported for purposes of making asphalt.

A Yes, we also make from it gasoline as well.

Q Yes, how does the Turner Valley crude in that respect show up?

A There is no asphalt, no virgin asphalt in Turner Valley crude.

Q MR. HARVIE: If there was a market here for asphalt, you would have to import either Venezuela or a crude with an asphalt base?

A Yes, we can make some asphalt from cracking stocks, made from Turner Valley crude.

Q One of the reasons you were invited here, Mr. Woolley, was to give your company's position in connection with competition of either East Texas in your case or the Illinois, as against Turner Valley crude, in the Western market, have you any information you can give on that?

A Well I have a map prepared here or rather some indications on a map, markings on a map here which may give the picture of competition between Turner Valley and East Texas crude as we are operating. It shows the dividing line for the two products.

Q This is a map of the, a Western Railway map of Western Canada?

A Yes.

Q That is the base map?

A Yes.

Q And on that you have in your own way by blue lines divided it into various areas?

A Territories, yes.

MR. HARVIE: I think maybe, Mr. Chairman, we might mark this.

(MAP PRODUCED BY THE WITNESS WOOLLEY HERE MARKED AS EXHIBIT "165")

Q THE CHAIRMAN: And that map has superimposed on it---

MR. HARVIE: Some lines which I think we can explain.

THE CHAIRMAN: Serving to show---

MR. HARVIE: The boundary, the economic boundaries of the territories that can be supplied with crude from the East as compared with crude from Turner Valley, is that correct?

A Yes.

MR. HARVIE: In putting this in, Mr. Chairman, I should say that it had to be done hurriedly, it was prepared overnight but I think we have it in a form that can be understood. I have several copies of it.

Q MR. HARVIE: Now you have in front of you, Mr. Woolley, Exhibit "165"?

A Yes.

Q Would you just in your own way explain what that purports to show?

A Well this heavy blue line down here shows the dividing line, the economic dividing line of shipments between products made from Turner Valley crude at today's posted

prices, and products made at Montreal and Toronto refineries.

Q Am I right in saying that the area to the East of that blue line is designated as "area A" on this map?

A Area A is supplied from our Eastern refineries from gasoline and other products made from East Texas crude, at East Texas prices.

Q Now that economic blue line is as the situation is today?

A Yes, that is with the $1.10 crude East Texas.

Q And $1.30---

A $1.26 for 46 - 47 gravity, I think that is correct for Turner Valley.

Q That is the same as $1.30 for 48 gravity which we have been talking about?

A Yes.

Q MR. FRAWLEY: Let us make it clear, do you mean right today that is the way the gasoline is moving?

A No, that is the economic line.

MR. HARVIE: I have not gone into the matter of the movement of gasoline. I am giving the economic situation as it is today.

Q MR. HARVIE: And that would be the dividing line as the economic situation is today?

A Yes.

Q That is using $1.10 Texas crude?

A Yes.

Q THE CHAIRMAN: As against $1.30 Turner Valley?

A Yes.

MR. HARVIE: I think our figure is $1.26

Turner Valley, whatever the gravity is, the posted price.

Q THE CHAIRMAN: That is what I wanted to get at, is the $1.10 a comparable figure with $1.30 or not, having regard to gravity?

A $1.30 at 48 gravity.

Q And $1.10, 48 gravity?

A $1.10 at 38 gravity.

Q At 38 gravity, you see that is different?

A I think it is 38 gravity East Texas, East Texas runs around 38 or 39 gravity.

Q MR. FRAWLEY: Of course we have no posted price for a 38 gravity.

A It all comes under just one price.

Q MR. HARVIE: The posted price in Turner Valley is $1.20 for the pipeline run today, $1.26 I think it is for the pipeline run, 44.

MR. NOLAN: 43.

MR. HARVIE: 43 - 44 gravity.

MR. FRAWLEY: $1.30 is it?

THE CHAIRMAN: $1.20 Mr. Harvie suggests.

MR. NOLAN: It is $1.20 for 43 gravity and it is $1.30 for 48 gravity and our figuration was on the basis of 48 gravity.

MR. HARVIE: Which was the pipeline run at that time.

THE CHAIRMAN: All I want you to do is if you can do it, to have the witness according to gravity, give us the Turner Valley price as against East Texas price.

Q MR. HARVIE: The question the Chairman wishes answered, I think maybe that can be better answered in your case as to the relative contents of a barrel of oil?

A I think the price used in figuring the Turner Valley end of it would be the posted price for the gravity, it would not make any difference whether we were running 43 or 45 or 47, whatever it was, whatever our crude runs are.

Q THE CHAIRMAN: The gravity makes a difference in the number of barrels of gasoline you make out of a given quantity of crude?

A A very slight difference.

Q MR. HARVIE: But let me understand it, when you are paying the posted field price in Turner Valley for the crude there and the posted price of $1.10 in Texas?

A Yes.

Q Those two figures have been co-related?

A Yes.

Q As to values and results, so that that is the economic line?

A Yes.

Q Regardless of the gravity of the oil?

A Yes.

Q THE CHAIRMAN: He has made a calculation as to the number of barrels he is getting out of each.

MR. HARVIE: Yes.

THE CHAIRMAN: And it is to be assumed that he is getting the same barrelage of gasoline when he

takes that line?

MR. HARVIE: Well I---

THE CHAIRMAN: You see that involves buying more crude here or less.

MR. HARVIE: It does but it is all equalized in these figures.

Q THE CHAIRMAN: Is that so?

A Yes.

Q MR.HARVIE: That is the actual cost of supplying your products if you do supply to, we will call it the "A" area?

A Yes.

Q And the actual cost that you, of the products you supply to the "B" area are figured out?

A Yes.

Q And including rates and so on, that is the economic line where they meet?

A Correct.

Q MAJOR LIPSETT: Is it material for your production purposes whether you pay $1.30 for a 48 gravity or $1.26 for 44?

A No, it doesn't make any difference, that sliding scale is put in there to take care of that difference in quality.

Q THE CHAIRMAN: Well that is all right if you had a sliding scale down in Texas that works the same way?

A Well in Texas, we have been running Texas crude for eight years and I have never seen any Texas crude varying more than one or two degrees. It is entirely different from this field where you get maybe a 65

gravity and a 41 gravity all out of the same field. The East Texas field is uniform in gravity and comes at, the production year after year runs a very uniform gravity and I think, well I have not looked at the trade journals for a long time on prices, but I do not think there is, on East Texas there is any sliding scale applies there, there may be.

Q What is the gravity of the East Texas?

A It runs around 38 or 39 gravity.

Q MR. HARVIE: All those factors have been taken into consideration in arriving at this economic line?

A Yes, they would be taken into consideration.

MR. HARVIE: I do not know, Mr. Chairman,---

THE CHAIRMAN: What is our price, do you say, Mr. Nolan, on 38 and 39 gravity?

MR. FRAWLEY: Turner Valley?

THE CHAIRMAN: Yes.

MR. FRAWLEY: There is not any, 40 is the lowest, $1.14 for 40.

THE CHAIRMAN: Is that so?

MR. HARVIE: You see the gravity is not as deciding a factor as what you get out of a barrel of oil.

MR. NOLAN: Does that not turn on gravity.

MR. HARVIE: In parts only.

Q THE CHAIRMAN: So far as we have heard, it turns on gravity, doesn't it, well this witness can certainly tell us, that is one thing that he can tell us from his knowledge?

Q MR. HARVIE: Are all oils, Mr. Woolley, of a similar gravity, have they all the same gasoline, contents?

A No.

Q THE CHAIRMAN: You might have him elaborate on that and show what real difference there is.

Q MR. HARVIE: Can you give an illustration of two similar gravity oils?

THE CHAIRMAN: If we are going on gravity in these prices, there is not much difference, your 38 would bring it down pretty near to $1.10.

MR. HARVIE: Yes, I think in the information we had, filed by the Imperial Oil, they showed where they used .898 of a barrel if I remember correctly, or some other fraction, of Turner Valley and they equalized it that way, that was in their working figures. As I understand from Mr. Woolley we have done the same thing and brought them to an equivalent and used that equivalent in preparing this information.

Q MR. HARVIE: Can you throw any more light on that, Mr. Woolley, to assist us?

A Well---

Q THE CHAIRMAN: Did you make this line, Mr. Woolley?

A No, this line was set by our accounting department in Toronto.

Q You did not assist in this determination?

A No sir.

Q And you do not know what their working shsets would show?

A No sir, I do not.

MR. HARVIE: All right.

Q MR. FRAWLEY: Before we leave it, Mr. Woolley, it is obvious that some kind of crude, Turner Valley crude was used in working out this line?

A The crude that was used to work out that line would be the gravity of the crude that we shipped or received at Moose Jaw.

Q Certainly, about 43 now?

A About a 43 or 44.

Q MR. HARVIE: Pipeline run?

A Pipeline run.

Q I heard somebody say it did not matter what crude we took, we are not taking it, you are using Texas crude at $1.10 against Turner Valley crude of about 48 or 49?

A Yes.

Q And the necessary adjustment to make them comparable?

A Yes.

Q Just as Mr. McGrath did?

Q MR. FRAWLEY: Yes, and area "A" can now be supplied from the Eastern refineries on that basis and area "B", is that to be supplied from Turner Valley crude?

A Yes.

Q From the Calgary refinery or Moose Jaw?

A Yes.

Q Now in between---

Q THE CHAIRMAN: I notice a semi-circle around Portage la Prairie, how does that come about?

A I will explain that, it is not very clear on these maps

but the blue line crossing the Canadian National green line there going up just, going up to the red line there and then that line, instead of touching that red line, should go over and cut from there about Radburn, I think it is, in other words that blue line, instead of following that railway around should have cut through that red line at Radburn, I think that is the name of it.

MAJOR LIPSETT: Rayburn.

WITNESS: Rayburn, just at that point.

THE CHAIRMAN: It circles back then?

A Yes.

Q MR. HARVIE: There is a freight or some other situation in there that handles that situation?

A Yes.

Q Or accounts for that situation?

A Yes, that is just a little jog drawn in there to show that the cut, the dividing line on that went around there, the red line is at Rayburn and down on the green line of the Canadian National would be at another town there, I cannot read the name of it, just Southeast of Portage la Prairie.

Q MR. HARVIE: Now immediately West of this wide blue line there is a lighter line and the area between those two is marked "area A1"?

A Yes.

Q I wonder if you would just explain what that is?

A Well that area shows, the A1 area shows the line to which we estimate our economic line would go if we should run Illinois crude at the Toronto refinery.

Q Which you are not doing?

A No, which we are not doing yet.

Q THE CHAIRMAN: Would you mind just repeating that, I do not know that I followed it?

A The dotted line, the dotted line represents our economic line between Turner Valley crude and Illinois crude providing we buy crude in Illinois at today's posted price, transport it to our Toronto refinery and then re-ship it to the West.

(Go to number 4211)

Q To summarize, the effect of that is that you brought the Illinois crude, and it might be considered that was cheaper crude in comparison with East Texas?

A Yes.

Q Just on that point, I notice in the memorandum you have to the right of Exhibit "169" that area AI represents consumption, as far as your company is concerned, of 45,000 barrels?

A Correct.

Q That is really all the differnece it makes as far as the Western picture is concerned whether you use East Texas or Illinois crude?

A Yes, sir.

Q 55,000 barrels?

A Forty-five.

Q 45,000 barrels a year.

Q MR. COMMISSIONER LIPSETT: Would that mean the cutting out of the East Texas crude altogether in your Toronto refinery, could you run the two oils in the refinery at the same time?

A Well, we could.

THE CHAIRMAN: Is it practicable?

A Oh, yes.

Q Why haven't you done it?

A To run Illinois crude we would require the installion of some new equipment.

Q To date you have not used it?

A No, sir, to date we have not used it.

Q MR. HARVIE: Reading this memoranda on the right, just to summarize, I note that Area AI states this territory can now be most economically served from the East using East Texas crude ?

A That is correct.

Q That Area B is all West of the A territory where Turner Valley crude is the economic crude to use?

A Yes, sir.

Q That is a correct summary?

A Yes.

Q And Al is the territory which represents the additional area that would be economically served from the East if we were to use Illinois crude in our Toronto refinery?

A Correct.

Q Then a note. In accordance with the business of the company for the year 1938 it would require approximately the following quantity of crude to supply: A Area, 225,000 barrels, Al area, 45,000 barrels, and B Area, 1,600,000 barrels, or a total of 1,870,000 barrels?

A Correct, sir.

Q Now, do I interpret that information correctly when I suggest that the present economic line at the moment, and what would appear to be for you might say the immediate future, the current year, would mean that you would use 225,000 barrels less of Turner Valley than you would have under the same circumstances in 1938?

A Yes, 1938 we shipped into all Manitoba.

Q Into the A Area?

A Yes.

Q That is to say, the economic situation is such that.....

A The line will be moved over to here.

Q And in the event you move to or change to Illinois or some similar crude or the East Texas price is reduced again to make it competitive.....

A I beg pardon?

Q In the event in the East your Eastern refineries use Illinois

crude at present prices or alternatively that East Texas crude reduces in price to meet it in a competitive way, it was economic to move your Western frontier West, including Area A1, and that would mean to reduce the consumption from Turner Valley by 45,000 barrels?

A Yes, sir.

Q So that the picture has changed or may change for the current year in a manner that would reduce your Turner Valley consumption by two to three hundred thousand barrels?

A Yes, sir, and increase our shipments from the East by that amount.

Q And the market remaining the same that would be just the difference?

A Yes, sir.

Q So far as that goes that means that the change or lowering of the price of Eastern crude has made a difference as far as your company is concerned to the Western market in considering Turner Valley as supplying the Western market, of that two hundred to three hundred thousand barrels a year?

A Yes, approximately.

Q Now, Mr. Woolley, I note that you have given no consideration apparently to the competition from any other source than what we will call the Eastern crudes?

A No, sir.

Q That means that you have not given effect in this compilation to any situation that may exist in regard to Montana crude?

A No, we have not.

Q Do you consider the competition in Montana a factor at the moment, or apt to be?

A Well, of course, that competition is there. What it is to-day

I cannot say.

Q Is there any reason why you have not given it consideration here?

A Well, one reason is that I was asked to come here specially to show the economics of shipments from Illinois crude and from Turner Valley crude.

Q Yes, I think that is so. Do you think there would be any necessity to set a fair picture before the Commission that they should give that consideration?

A Of Montana crude, do you mean?

Q Yes?

A Well, I cannot say. I have not studied the economics in Montana now for several months, or some time.

Q May I put it this way, that you do look upon Turner Valley, and we will say Cutbank field in Montana, as competitive fields?

A Yes, sir.

Q And that would mean that possibly any competition from Montana would likely be looked after by an adjustment of price of the Turner Valley?

A Yes, we would expect that if the Montana crude got below the
4 price of Turner Valley that Turner Valley would meet that competition.

Q On that basis you think you are justified, for the moment anyway, to ignore competition from Montana?

A Yes.

THE CHAIRMAN: Does all this mean anything more than this, that Turner Valley crude will go just as far East as the posted price of Imperial will permit it going?

A No, I do not think it means that.

Q Well, you say you buy Illinois at a certain price, and at

that price you can afford to take it so far West?

A Yes, sir.

Q And if Imperial and B. A. in this Valley imposed a price on the producers here which was even less than that then economically you could take it further East?

A Yes, sir.

Q As they kept lowering that price to the producers so you would go further East?

A Correct.

Q And if the producer could stand it and still operate his wells you might get right East to Sarnia?

A Well, I hardly think it would go that far.

Q You think there would come a time when he would not operate any longer?

A Yes, there would come a time when it would not pay the producer.

Q And he would either have to quit producing or build his own refinery and ship his own oil?

Q MR. HARVIE: No, building his own refinery.....

A Well, I do not know that building his own refinery would be the answer.

Q Building a refinery does not increase the market?

A It does not change the market.

Q THE CHAIRMAN: But if you cannot get a buyer at a price that permits of you producing you have to try to distribute the refined products, I would suggest, yourself?

A Again he comes in competition.

Q Quite so. You think, unless Imperial allows him a price over and above the cost of production he will have to close up. He has no other out-let?

A I beg pardon, I did not catch what you said?

Q I say, unless the Imperial and the B. A. in this particular field allow a price that would permit of the producer to

produce at something better than cost he has just got to stop producing?

A That is correct.

Q MR. HARVIE: That is the economic situation all over, in every industry?

A It is the same the world over.

THE CHAIRMAN: Quite so. But the bald fact is, is it not, quite regardless of Illinois, Texas or any other field, the Imperial and the B. A. to-morrow, in concert or independently, providing they hit upon the same price, could make any reduction they saw fit to the producers of Turner Valley?

A Well, I do not know. I cannot answer that question.

Q Do you know of anything to prevent it?

A I do not know.....

Q As an experienced oil man I am asking you now?

A I do not know that we have ever done that. I do not know that we could do it.

Q Probably you never will.

Q MR. HARVIE: You know, Mr. Woolley, there are other large companies operating in this area, such as the Texas?

A Yes, sir.

Q THE CHAIRMAN: Buying crude?

A No, not buying crude.

Q I am talking about purchasers of crude?

MR. COMMISSIONER LIPSETT: They would be strengthening their position as against Texas by reducing the price to the producer in Turner Valley.

MR. HARVIE: Not if Texas came in and gave a

premium and used it.

THE CHAIRMAN: And bought the crude?

MR. HARVIE: Yes.

THE CHAIRMAN: They have no refinery here yet, have they?

MR. FRAWLEY: They could not sell crude in the service stations.

THE CHAIRMAN: I am just trying to straighten this thing out in my own mind, Mr. Harvie. I am not saying anything about this company or the practice all over the world. I am just saying that we are taking a lot of time talking about Illinois and East Texas and drops in prices, for what reasons we do not know, - but the fact is that Imperial and B. A. to-morrow, quite regardless of any drop anywhere else, could put the price of crude at what they liked and send it as far East as they liked, and I do not know of anyone in the producing world who could say them nay, unless they wanted to lose all the capital they had invested in drilling holes. If there is any answer to that I would like to hear it.

MR. HARVIE: I cannot say there is an answer. I might ask this question, which might throw light on it. That is this.

Q There was a time when your company was not using any Turner Valley crude?

A Correct.

Q How long ago?

A Two years ago.

Q And at that time you decided to go in and make arrangements for the purchase of crude in Turner Valley?

A Yes, sir.

Q And you did go in and make arrangements for the purchase in competition with the then buyers from that field?

A Right.

Q Did you have a refinery in Calgary at that time?

A No, sir.

Q What did you do with the crude you bought?

A What did we do with the crude we bought?

Q Yes?

A In Turner Valley?

Q Yes?

A We shipped some of it to the Bell Refinery and we made arrangements for processing it at the Imperial refinery.

Q In other words, you made arrangements with the Imperial Oil that you would supply them with crude and they would process it for you?

A Yes, sir.

Q And in that way you were able to break into this market with Turner Valley crude until such time as you built your own refinery?

A Correct.

Q Is there any reason why any other marketer could not do the same, that you know of?

A I do not know of any reason.

MR. HARVIE: I do not know if that is of any assistance or not.

THE CHAIRMAN: Perhaps it is and perhaps it is not.

Q Did you ever pay any price or offer any other price than the posted price of Imperial?

A I cannot answer that. I have nothing to do or very little to do with the production end of the business.

Q Do you think it likely that they would have taken your oil

and agreed to refine your product if you had undermined their buying ability. Do you think it likely?

A That is whether they would be so friendly to us if we tried to break the market?

Q Yes. Would they refine it at all or enter into contracts, any contract as a business man?

A Well, we are really not interested.

Q MR. HARVIE: Mr. Woolley, do you know whether the Imperial were buying all the oil being offered at that time?

A At the beginning?

Q Assume with me at the time you broke into the Turner Valley crude field by purchasing crude there, that the Imperial were taking all the offerings. It is very unlikely you could go and buy below what they were offering. Am I right in assuming that?

A I did not just get your point, Mr. Harvie.

Q My point is simply this, if the Imperial Oil were then paying what we will say was the posted price?

A Yes.

Q And you wanted to come into this field, would the likelihood be that you could go and buy crude that you wanted at a price less than that being offered by the Imperial Oil?

A Oh, I do not know anything about that. I do not know what they could buy for.

Q Well, just generally.....

Q THE CHAIRMAN: Would you pay more, buy at a higher price than they were offering? Do you know of any instance in which you did that?

A I do not know anything about that, Mr. Chairman.

THE CHAIRMAN: Yes, I think this witness does not.

Q MR. COMMISSIONER LIPSETT: Just one point I would like more information on, Mr. Woolley, In this map you show the territory B, 1,600,000 barrels?

A Yes, sir.

Q Which would be the natural area for the sales of Turner Valley?

A Turner Valley, yes.

Q And that 1,600,000 would be what you expected after all this Illinois and other competition?

A No, that is before the Illinois and after the East Texas competition.

Q But is not the 1,600,000, the B Area, what would remain after both Illinois and East Texas.....

A Mr. Harvie, I think this map here, possibly, is incorrect. This arrow should have stopped here. Expand that. We have totalled this up here. This Area, 225,0000 barrels, this area - the correction there is to stop this B Area here instead of changing these figures.

MR. HARVIE: I think we may be allowed to do that.

THE CHAIRMAN: What is that?

A No, that B note would not be correct either, Mr. Harvie.

Q MR. HARVIE: This 1,600,000 , that should read 1,645,000 in the B Area, that would answer it?

A That is right.

MR. COMMISSIONER LIPSETT: In B Area including A1?

A Yes.

Q What I was putting to you, Mr. Woolley, was, that if you stopped here at this dotted line you then have 1,600,000 barrels left for Turner Valley?

A That is correct.

Q After both the Illinois and East Texas competition?

A Yes.

Q What I wanted to ask you in reference to that was, was that based on last year's figures?

A Yes, this is based on 1938 figures.

Q When the Imperial was doing your refining?

A Yes.

Q For that area?

A Yes.

Q You are now putting in your own refinery?

A Well, we were doing our own refining for that area. That refining was done at Moose Jaw, for the Manitoba area.

Q Then if that is correct and you were able to do 1,600,000 barrels for the B Area, less A1, from Moose Jaw.....

A No, that was not all from Moose Jaw. That is from Moose Jaw but that includes all our operations from this end of the field, this end of the Prairie. That covers Moose Jaw and the Calgary operation and a small amount f Coutts operation too.

Q Was Imperial doing any refining for you last year?

Q Yes.

Q And does it include?

A It includes the Imperial Oil work for us.

Q This 1,600,000 includes the Moose Jaw, Coutts and Imperial?

A Yes.

Q What I was going to ask was this, that when you get your own refinery up I presume the intention would be that you would cheapen your operations?

A Well, I cannot say that we will. I do not know anything about that yet.

Q Would it not be natural to expect you would be in a better competitive position?

A Well, I hope so.

Q With your own plant?

A With our own plant.

Q And consequently would it be unreasonable to assume that part of this 225,000 and 45,000 barrels which, ex-hypothesis, would comee from the East, may now be supplied from Calgary?

A Oh, no.

Q Or Moose Jaw?

A No. This dividing line over here is the balance between the Moose Jaw refinery and the Eastern refineries. It will not be affected by any refining operation in here.

Q So that if there was any alteration made by reason of the new Calgary refinery it would not increase the market. It would mean you would, perhaps, get a little more market and somebody else may get a little less?

A It would not increase the market, the building of this refinery here.

Q Well, I mean it would not push your market any further East?

A No, sir.

Q You do not expect that?

A No, because we can only get to this point in the East by having a refinery at Moose Jaw.

Q Then this picture shows that at the worst, shall we say, you expect 1,600,000 barrels?

A Yes.

Q Does that all pass through the pipeline?

A Yes, sir.

Q At present?

A Yes, sir.

Q So whatever throughput we get finally for next year from the Imperial, you anticipate 1,600,000 barrels of crude oil for

you will pass through the pipeline?

A Yes, sir.

MR. COMMISSIONER LIPSETT: I think we have a figure, haven't we, for the Imperial?

MR. NOLAN: Ours is done on a per day basis, Mr. Commissioner.

MR. COMMISSIONER LIPSETT: It would be something like this 13,607 figure less 2,233 as shown on Chart 1?

MR. NOLAN: Yes, per day.

MR. COMMISSIONER LIPSETT: Possibly we could get an arithmetician to tell us how much that would be per annum. Something like 13,600 barrels less 2200 barrels per day.

MR. NOLAN: Are you taking the A Area as being Manitoba market and subtracting that?

MR. COMMISSIONER LIPSETT: As being out of it, if the worst came to the worst.

MR. NOLAN: And if Montana does not compete?

MR. COMMISSIONER LIPSETT: I was taking it on the present basis.

MR. NOLAN: That there is no Montana?

MR. COMMISSIONER LIPSETT: Yes.

MR. NOLAN: Then that is not right because if Montana does not compete the Illinois area on that map moves further West, that is on Chart A.

MR. COMMISSIONER LIPSETT: And that again, Mr. Nolan, is on the assumption that the Montana crude is sold at or less than $1.00 per barrel.

MR. NOLAN: If we leave the Montana crude out altogether and have no green area on that map, then there is a point where the yellow and the red areas will meet, and that is not the present boundaries of either of them.

THE CHAIRMAN: And if there is no change in Illinois prices as a result of pro-ration or anything else.

MR. NOLAN: And if we continue to produce in the Turner Valley field at the rate at which we are now producing.

THE CHAIRMAN: Quite so.

MR. FRAWLEY: You take all the "ifs" and just roll them around.

MR. HARVIE: It would be a nice industry if there were no "ifs" in it.

Q Mr. Woolley, is there any other information you have in mind....

MR. FRAWLEY: A few questions in cross-examination might draw them out if he cannot think of them.

Q MR. HARVIE: We will try and get them out first so that there will be no need for cross-examination. Is there anything else that you think might be of interest to the Commission?

A No, I think that covers the map here.

Q If that is so I think maybe the second reason you are here is to answer for the policy of the company in regard to what will happen in a situation such as this. I might put the question in this way, that assuming that the economic line is as shown on Exhibit "165", be it either by the use of Texas crude or Illinois - that is including or excluding Area A1, what would be the policy of your company in striving to meet the economic situation on that and delivering to that line beyond either extremity?

A The policy of the company always has been and will be in this case to supply products to the market from the most economical point.

Q And that is the average line?

A Yes.

Q That is at the moment it would be at that blue line?

A Yes, sir.

Q Does that mean that we will just, just taking two points where the line runs between the railway line, here is one. I see St. Claude. Now, it may be better if we took the main line that we have been discussing. Here is one, High Bluff. That is, according to my map, right on the blue line.

MR. NOLAN: We could take another one.

THE CHAIRMAN: Yes.

MR. HARVEY: I thought that was an excellent one.

Q And on the West we will take Portage la Prairie. Does that mean that you hew strictly to that line or might there be a little variation?

A No, sir, that line is a line, everything to the East of that is assigned to the Eastern refineries and everything to the West is assigned to the Western refineries, Moose Jaw, and that is what we aim to do. But often we cannot do that and there is some overlapping.

Q But actually you do make that actual assignment?

A Yes, sir, we make that assignment and live to it as closely as we can. There are times when we are not following that right on the dot.

Q As you say, you are authorized by your company to say that you will strive to carry out that policy?

A Yes, sir.

Q And put it into effect?

A Yes, sir.

Q THE CHAIRMAN: Are you authorized to say you are going to put in the new machinery to use Illinois?

A No, but we are considering that.

Q According to how you finally decide so will your decision upon the use of Illinois or not to use it, depend?

A Beg pardon?

Q I say your decision to use Illinois or not to use it will depend upon your decision as to whether it is worth while to instal the new machinery?

A Yes.

Q Which decision has not yet been made?

A That is right.

Q MR. HARVIE: And that might be dependent on the Texas crude, the steps that it takes to meet the situation or if there is a firming of Illinois?

A Correct.

Q THE CHAIRMAN: And also, I suppose, on what the machinery costs and how permanent the Illinois rate seems to be?

A That is right.

Q And also many things?

A There are a lot of things to take into consideration.

(Page 4227 follows.)

Q Mr. Woolley, in view of that how can you fairly say that your company has no policy about this yet?

A A policy about what?

Q Of moving Illinois crude?

A We have no policy about moving Illinois crude.

Q Then how about the policy of moving East Texas crude into Western Canada?

A Our policy will be to follow the economic dividing line as closely as possible.

Q THE CHAIRMAN: Whatever from time to time seems sound economically, that you will do?

A Yes.

Q And that is why you say your policy in the past has been to follow strictly economic lines?

A No, I did not mean to give that impression, we do not always, as a matter of fact I understand it is impossible for us to.

Q Yes, now are you not saying that your policy is going to be to move East Texas crude into Manitoba and shut back the Turner Valley crude because it will be economical to do it?

A Correct.

Q And you say when Mr. Harvie asked you about your company's policy, you say that it has been our policy to follow economic lines?

A Yes.

Q MR. HARVIE: And he also said it will be in this case?

A It also will be in this case.

Q MR. FRAWLEY: Is there something else enter-

ing into it, to make more certain that the policy will be to move the East Texas crude into Western Canada?

A I do not understand your question.

Q You speak of policy, now you do not mind me asking you how you know, as superintendent of refineries, that that is a policy of the British American Company?

A How I know?

Q Yes?

A Because they have instructed me that that will be their policy.

Q Who has instructed you?

A The officers of the company.

Q Who instructed you?

A Mr. Gaby.

Q Mr. Gaby instructed you?

A Yes.

Q And when Mr. Gaby has instructed you, so far as you are concerned that is the policy of the company?

A Yes, to me that is.

Q You do not know how far beyond Mr. Gaby it has gone of course?

A No.

Q You did not follow strictly economic lines when you discontinued using Cutbank crude at Coutts a couple of years ago, did you?

A I do not know just what you mean, we just discontinued we had been running Coutts up until last month, what do you mean by discontinuing running it two years ago?

Q You had a refinery at Coutts which supplied the whole

of Alberta, roughly speaking, perhaps some little bit came from Moose Jaw in the Eastern edge?

A I do not think Coutts ever supplied the whole of Alberta.

Q Well I do not know what other refinery supplied it?

A It may have, that is going back two or three or four years.

Q That is going back to the time when you discontinued in any large way using Cutbank crude and I suggest to you that your Coutts refinery supplied the Alberta market?

A That is correct.

Q All right. Now in 1936 you discontinued supplying the Alberta market from Coutts?

A Substantially, yes.

Q Substantially?

A Yes.

Q Now that was in 1936 to be precise?

A 1937 I think it was.

Q 1937, yes, now I put it to you that you could have continued to serve Southern Alberta from Coutts even although you found it economical to enter into a custom refining arrangement with the Imperial at Calgary for the major portion of your Alberta market, is that not so?

A No, that is not so.

Q You say that you could not have supplied Southern Alberta from Coutts?

A No sir.

Q Why do you say that?

A Because when we supplied---

Q Yes, all right.

A When we supplied Southern Alberta that dividing line was then at Lethbridge and just below Lethbridge and the gallonage in that territory was so small that it did not pay for us to operate the Coutts refinery.

Q And you found it more economical to send Calgary refined products right down as far as Coutts?

A Yes.

Q I see, you do not, I see, from your map, you do not contemplate moving Cutbank crude into Western Canada?

A No, as I explained, this map was made up on request to show the economics between Cutbank, I meam Turner Valley and Illinois and we have---

Q THE CHAIRMAN: And East Texas?

A East Texas, the Illinois, the request was and we have shown both because we in the East run the East Texas and I have not given any consideration on this to Montana, to Montana crude.

Q It is because you said something a moment ago, you looked at the situation as well as you could, you do not seriously expect to move Cutbank crude into Western Canada, into your Moose Jaw refinery?

A Well I hope anyway myself that Turner Valley will meet that market if it does go.

Q Why?

A Because I think that the company would prefer to operate on Canada produced crude.

Q But they will not if Cutbank can get in here and com-

pete against it?

A No, if Cutbank goes down to a point where we are losing money on it I think the only thing for us to do is---

Q THE CHAIRMAN: What you mean is, you mean you are not making all you might?

A No, I do not mean that. I cannot see any difference between the line between Montana crude and Turner Valley crude than there is between Turner Valley and East Crest or Venezuela.

Q MR. FRAWLEY: Say that again, please.

A I cannot see any difference, if Montana crude goes down to a point where we cannot afford to continue to operate at Moose Jaw on Turner Valley crude, why we will have to run on Montana crude.

Q That is on your present price structure anyway, always assuming that?

A On any price structure. It does not make any difference. If Montana crude, if we can make a given quantity of the various products we need cheaper from Montana crude than we can from Turner Valley crude.

Q I quite agree, to give you a lower laid down refinery cost in any event?

A Yes.

Q But what I am suggesting to you, do I take it from your answer then you do not think there is any slack

A in your marketing spread to take up any loss on your laid down cost?

A Oh I do not know about that.

Q That is what I am suggesting to you?

A That is the reason I did not get that suggestion because I do not know anything about it.

Q If there is any slack there, that is one place to take it up?

A I do not know anything about that.

Q Mr. Woolley, I put it to you if any company would be likely to come into Western Canada with Cutbank crude, it would be your company, rather than the Imperial Oil for instance?

A I don't know why.

Q You don't know why I make that suggestion?

A No.

Q You have the pipeline there?

A Yes, we have the pipeline.

Q And you have crude production there?

A I believe we have a small amount.

Q You have producing wells in t Cutbank?

A I understand we have.

Q This exhibit which is filed jointly by yourself and the I.O. Exhibit "164" contains this paragraph, with respect to your company,

"Through United States subsidiaries, owns extensive interest in Oklahoma, Kansas, Montana, Texas, Louisiana, Arkansas, Wyoming and California oil fields, which properties are capable of supplying the company's entire crude requirements. As at Aug. 1, 1938, company owned or had interest in 279 produc-

ing wells in U.S.A., in following fields; Oklahoma, 145 wells; Texas, 112; Montana, 11; and Kansas, 11. Net daily production to company was in excess of 12,000 bbls".

And then the next note is that your Tononto pipeline Company owns and operates pipelines in Montana, and I simply put it to you that your company would be better equipped to handle and to use Cutbank crude than any other company?

A I do not think so.

Q Why?

A Well I think as a matter of fact the total overall weight of transportation from Cutbank through the pipeline to Coutts and to Moose Jaw is the same as the all railway to Moose Jaw.

Q I know, but if your Tononto pipeline Company was operating with a good steady daily throughput for the Moose Jaw refinery I presume it would be making a profit?

A Yes.

Q Then that is something that the British American would consider?

A I do not know.

Q But if we assume it would be?

A Yes.

Q We do not see any reason why it should operate without a profit, assuming it was operating with a profit, that is something for the British American Oil Company which might be an added inducement to using Cutbank crude?

A If there was any profit there.

Q Over and above all that, you say you do not at the moment see any Cutbank crude coming into Western Canada in 1939?

A No, I did not say I did not see it, I say I have not made a study of that recently.

Q Well why do you say you do not say that, I thought you said, I thought that was just what you said?

THE CHAIRMAN: No.

WITNESS: No, I did not say that, I said I had not made a study of Cutbank for some months.

Q MR. FRAWLEY: Yes I know you said that but, well if I am wrong please correct me, I thought you said that you did not contemplate Cutbank crude coming in because you thought that Turner Valley would meet its price?

A I hope so.

Q Are you not offering that as your Company's view to the Commission?

A No, I think not, that is my personal view.

Q The same kind of view as your company has expressed with respect to other matters?

A Yes, we were anticipating that Montana crude would meet the Turner Valley competition.

Q MR. HANVIE: Vice versa you mean?

A Yes, vice versa, I mean Turner Valley crude would meet Cutbank competiiton.

Q MR. FRAWLEY: You might just as well say, I would expect that Turner Valley crude would meet the East Texas compeition in Manitoba?

A I mean, might just as well, possibly they have, I do

not know.

Q I do not think they have at the moment, it is all still going down there?

A I do not know.

Q Is there any distinction in your mind between the likelihood of the Turner Valley people meeting the Cutbank competition than meeting the East Texas competition?

A Yes, there is a distinction I think.

Q What is it?

A Well I do not think that Montana crude coming into Canada here is likely to try to get territory away from Montana, shipping Turner Valley---

Q I mean, how about East Texas coming into Manitoba, is that not the same thing?

A Yes.

Q The same thing, because we in Alberta are nearer to Montana than we are to East Texas, that does not make any difference.

A No.

Q So that so far as you are concerned you would expect the Turner Valley producer to meet the East Texas competition in Manitoba just as much as they would be expected to meet the Cutbank competition in Saskatchewan?

A Yes.

Q Now can you help us out by giving us the price at which you think the Cutbank crude would have to be met by an Alberta price?

A No, I cannot, Mr. Frawley.

Q And you know nothing about the range of prices in Cut-

bank today?

A No I do not, I have not studied that for some time.

Q So that really at the moment all your evidence amounts to is this, then this afternoon, Mr. Woolley, we may have to contemplate so far as your company is concerned, we may have to contemplate a diminution in the Turner Valley pipeline throughput of 250,000 barrels?

A Yes.

Q In the whole year?

A Yes.

Q MR. HARVIE: 250 to 300 thousand?

A Well it is 250, 275,000.

Q MR. FRAWLEY: Now you said something about the unlikelihood of these producers in Turner Valley if their price was put down too low, as vendors of crude, going into the refining business and building skimming plants?

A I do not remember what I said about that.

Q What is your view about that, the likelihood or unlikelihood of the producers doing that?

A I do not know that I expressed an opinion on that.

Q I am sorry, I thought you said that would not help them out or something, they would not help themselves out by doing that, I mean was I right in taking that from your evidence?

A My thought was there that that is not going to change the market.

Q It is not going to change the market?

A No.

Q MR. HARVIE: Building a new refinery would not change the market, I think is what he said.

Q MR. FRAWLEY: Would not add---

A Would not add to the grand total.

Q Of the consumers?

A No.

Q It may be a very short-sighted policy, but do you not think it is a likely one?

A Then he would be in the refining business and not in the producing business. If he is making money out of the refining business he would not make any more out of the producing business. It is all right if he can go into the refining business and make money but that would be credited to refining and not to the crude, it would not increase the price of the crude.

Q The Chairman was speaking of the power of the Imperial to put down the price of crude but there would be a point where he would either have to stop producing or keep on producing and endeavour to find some outlet of his own through building a refinery I suppose, that is what he would be faced with?

A Well I do not know what he would be faced with, that is one way out.

Q There would be three things?

A Yes.

Q Continuing to sell at a price which we assume at the moment to be a ridiculously low one?

A Yes.

Q Shut in the well altogether?

A Yes.

Q Or continue to produce and try to find his level?

A An outlet for it.

Q By refining?

A By refining.

Q THE CHAIRMAN: By refining and marketing?

A By refining and marketing.

Q MR. FRAWLEY: By refining and marketing?

A Yes.

Q Now which of those three things do you think he would be likely to embark upon?

A I do not know, I am not a producer.

Q You are much more qualified than I would say anyone just in the immediate vicinity here, cannot you tell me?

A No, I do not know anything about the producing business.

Q But you know a lot about refining?

A I know a little bit.

Q Do you think he would be butting his head against a stone wall to go into a skimming plant in Alberta today?

THE CHAIRMAN: And what is this skimming plant operation?

WITNESS: A skimming plant is one where you take the crude, the natural crude and skim off the products that are saleable from that. It can be built any size, large or small, at a very cheap cost and can get out the natural products out of the crude.

Q MR. FRAWLEY: In other words it is the lowest

form of refinery life?

A That is right.

Q MR. PLOTKINS: Pardon me, would it not be better to express it as the natural distillation as against destructive distillation?

A That is one way.

Q MR. FRAWLEY: It is certainly not the way to describe what you are putting up?

A A destructive distillation?

Q No, I mean in a skimming plant operation?

A No, that is not a skimming plant operation.

Q You and the Imperial Oil require a certain amount of crude every year and every day for your two Calgary operations, do you not?

A Yes.

Q And so far as you are concerned you are depending on the independent producers or the general run of producers in Turner Valley, because you are not producing any oil yourself?

A That is right, I understand it so.

Q You are contracting with independent companies?

A Yes.

Q And you certainly would not want to be a party to closing up the wells of any company down there, would you?

A No, I do not think we would.

Q You would not want to drive down the price for Mr. Brown, for instance, who is one of your big suppliers?

A I do not think anyone would want to do that.

Q No. Well now Mr. Woolley, I am not blaming you at all, I am not blaming you in the least, but it was expected you know when you came that you would either bring the calculations or bring Mr.Bronsden who may be chiefly responsible for making them, with you, and I would be glad, if you would be good enough to see that the calculations which are behind the map which you have filed are sent out to us?

A Yes I will do that.

Q By the first mail, by Air Mail if possible.

MR. HARVIER That is to----

MR. FRAWLEY: To Mr. Cottle.

Q MR. FRAWLEY: Yes, assuming you did not bring them with you?

A No I did not.

TO MR. NOLAN:

Q Mr. Woolley, I want you to help me for the moment if you will as to the posted field price, now I understand at one stage the British American posted the field price in the Turner Valley, do you know anything about that?

A My recollection is that the British American assisted or brought in the first crude well in the Valley.

Q Do you know what effect that had, go on?

A And therefore at the time I think the Turner Valley crude well, was it, or something like that, the first and only big producer in the field, the British American had the production and at that time I think they set the price of the crude, I am not sure about that.

Q Do you know what factors entered into the posting of the field price?

A I am not particularly familiar of how they figure that, no.

Q Well during the course of these proceedings, Mr. Woolley, a Mr. McGrath, an employee of Imperial Oil Company?

A Yes.

Q Assistant manager of the refinery, gave evidence and at pages 3802 and 3803, he said this:

> "Extending Turner Valley Crude to include the Saskatchewan and Manitoba Areas being supplied by running Montana Crude at Regina and Mid-Continent Crude at Sarnia made it necessary to place a value on Turner Valley Crude which would make it competitive with both these Crudes in the respective areas".

Do you agree with that?

A I do not think I understand it.

Q Well we were talking about the price which was posted here by the Imperial and the reason for it?

A Yes.

Q And he points out that in extending the Turner Valley crude to include Saskatchewan and Manitoba areas and then being supplied by running Montana crude at Regina and Mid-Continent at Sarnia it was made necessary to place the value of Turner Valley, which would make it competitive with both those crudes in their respective areas?

A Yes.

Q "At the time Turner Valley Crude was posted at an average of $1.30 per barrel at the well, Montana crude could be bought for $1.00 per barrel and Mid-Continent crude was posted at $1.22 per barrel at the well", now what I want you to tell me if, in your opinion, competitive prices play their respective parts in the fixing of the field posted price?

A Oh they always do.

Q Then what is there for suggesting that either the British American Company or the Imperial Oil is going to arbitrarily force down the price to the producer at the well in Turner Valley for his crude oil?

A No, I am not suggesting that.

Q Is there any basis for that?

A No, I would not think so.

Q Did your company ever do it?

A No.

Q Did the Imperial to your knowledge?

A Not to my knowledge.

Q Those are the results of other economic factors operating on this Valley, are they not?

A Yes I should think so.

Q Will you say with me that for example the influence of the Illinois new field on the Oklahoma field and its influence on the East Texas field is all felt?

A That is right.

Q One influences the other?

A Yes.

Q And is it not a fact that there is over-production of oil in the United States of America?

A Yes.

Q Is it not a fact that the crude prices are down in the United States of America?

A Yes.

Q Do you know when those reductions are made or what they were?

A You mean the recent reduction?

Q Yes.

A Say over the years.

Q There has been a recent reduction, has there not?

A I do not know, you mean in Oklahoma and Texas?

Q In the general level of crude prices in the United States?

A Well I do not know the dates, though in last Fall I think there was two reductions, one at 10 cents and another at 15 cents.

Q In the general price level of crudes in the States?

A Yes.

Q Was there any reduction in the price level of the Turner Valley crude at that time?

A No sir.

Q That price has been maintained and established since January of 1938, the 5th day of the month, you know that, do you not?

A Yes.

Q Now you were asked something, Mr. Woolley, about this Montana situation and I understood you to say that the competition was there?

A Yes.

Q Those I think were the words you used?

A Yes.

Q It is perhaps something which should be taken into consideration by this Commission, is it, in your opinion?

A Oh yes I should think so.

Q If we are considering the throughput of this pipeline?

A Oh I should think so, yes.

Q You are merely saying that you, for the purposes of your calculation, did not take it into consideration?

A Correct.

Q Does the Toronto Pipeline Company only run British American Oil?

A No, it is not running at all now.

Q No, but when it was running did it run only British American?

A No, it ran other oil.

Q For other persons?

A Yes.

Q There was some suggestion made here that it was only transporting your own products, that is not so?

A No sir.

Q What is the rate?

MR. FRAWLEY: So that Mr. Woolley will know now---

MR. NOLAN: Perhaps Mr. Woolley does know.

MR. FRAWLEY: Yes, because Mr. Gaby says that it ran it for only the parent company. Do not say that somebody said so.

MR. NOLAN: Mr. Gaby has not been here.

MR. FRAWLEY: His telegram went in as evidence through Mr. Harvie.

WITNESS: Well I may be mistaken but I have in mind one connection that we made for a refinery at Lethbridge that took delivery through our line.

Q MR. NOLAN: Yes, was that some years ago?

A I do not know, that is out of my jurisdiction entirely, the peipeline operation, but I have a recollection of making arrangements for tankage in connection, at the Coutts Refinery for a Lethbridge Refinery to take crude through the pipeline.

Q Do you know the rate, Mr. Woolley?

A The rate is 15 cents.

Q Yes?

A 15 cents.

Q That line is there?

A Yes.

Q In the ground?

A In the ground.

Q And could be used to transport crude from Cutbank to Coutts?

A It should be, yes.

Q MR. FRAWLEY: Mr. Woolley, just one question, you told my friend, Mr. Nolan, you think this Commission should take Cutbank crude into account in calculating the possible diminution of this throughput, you said that a moment ago?

A Yes.

Q You have come all the way from Toronto and submitted plans here of what the Western Canada market is going to be as your company sees it and you have not taken it into account?

A No, Mr. Frawley, I have tried to present here the information which was requested.

Q Well---

A Not to set forward any plans or policies of the company but to answer the question which I was asked.

MR. HARVIE: I think he did say that he did consider that he was justified in ignoring that competition at the moment, feeling that Turner Valley crude would meet the situation?

Q MR. FRAWLEY: Quite, and why the Commission should be entitled to follow some other lead is all I want to make out, all right.

MR. NOLAN: We will leave that to the Commission.

THE CHAIRMAN: We will probably decide about that.

MR. FRAWLEY: Yes, quite. I am quite in accord but why Mr. Nolan thinks Mr. Woolley would have any ideas about it I do not know.

MR. NOLAN: I do not know why you should think he has not any.

THE CHAIRMAN: All right, gentlemen.

Q MR. FRAWLEY: Let us understand whether your Toronto Pipeline Company transports for the public or not, now I do not want this telegram to do anything more than it is intended, that your company intends

out of it, and I find this statement dealing with the operations of the Toronto Pipeline Company, "rate 15 cents,deductions 2 per cent, transport for parent company only constructed 1934 still operating", now fairly I want to know what the general experience of the company was, Mr. Harvie now suggests, Mr. Chairman, that that word "transport" is after all a use of the present tense and that this telegram may only mean that the company now transports, and if that is so---

MR. HARVIE: Ask Mr. Woolley if he knows.

Q MR. FRAWLEY: Do you know whether or not the Toronto Pipeline Company other than the extent of the connection that you say you made for a refinery in Lethbridge, transports for your parent company only?

A No, I do not know.

Q You do not know?

A No, I do not know.

MR. HARVIE: If there is any question about it I will be glad to get the facts.

THE CHAIRMAN: Yes, if you want to know, Mr. Frawley, Mr. Harvie will communicate with his principals and straighten it out exactly.

MR. FRAWLEY: Yes.

Q THE CHAIRMAN: Mr. Woolley, we have heard much about what is economically sound in connection with price fixing or posting a field price, now I just want to get clear on this, you say that a price which will be fixed in Texas will have its effect, until eventually the wave will reach and have its

affect upon Turner Valley?

A I think it has some effect.

Q Illinois for example will have its effect in Texas, if Illinois is low?

A Yes.

Q And Texas will have its effect in Wyoming?

A Yes.

Q And these other States, until it reaches Montana, which has an effect here, that is, as I understand, the view you desire us to seriously accept?

A Yes.

Q And so if I were able to fix a price in Texas, so as to lower it, I would have no difficulty in affecting the price all over the United States and Canada, is that right, on your own reasoning?

A Yes, that is following my line of reasoning.

(Go to number 4249)

L. E. Woolley.

Q The question of who fixes the price in Texas and why?

A I cannot tell you.

Q Or Illinois and why, is that not so?

A Yes.

Q If you wanted to be arbitrary, you and Imperial, if you wanted to be, if you did not want to be benevolent and follow the prices fixed somewhere else by whom and why we know not, you could arbitrarily fix it in Turner Valley without regard to Texas or Illinois or anywhere else, might you not?

A Yes.

Q I am not saying that will ever happen or has happened. I just want to explode this theory that it is all clear that Turner Valley follows Texas or somewhere else, for economic reasons. It may be for economic reasons. It may be for controlled reasons, of which we can only speculate, is that not so?

A That is right.

Q MR. NOLAN: That raises another point. You know something about the Texas field?

A Very little.

Q You know that there are hundreds of oil fields in Texas, literally?

A Yes sir.

Q You know that there are thousands of barrels of oil in Texas?

A Yes sir.

Q Can you explain to me how any one company could control the price of crude in Texas today?

A I do not think any one company can.

Q No, neither do I.

L. E. Woolley.

Q THE CHAIRMAN: Wouldn't you think that some combination of companies must. How does the price go down instead of up? Tell me that? Why shouldn't it go up?

A One reason is that there is a surplus of production today and the figure is kept up by not pushing it down.

Q MR. COMMISSIONER LIPSETT: If it is suggested there are thousands of buyers looking for this oil, wouldn't you think that competition would put the price up?

A There are not thousands of buyers in quantities, because in the fields in the States, those fields that are producing today, I do not know the quantities, but they are in hundreds of thousands of barrels, and they are operating on a two or three per cent pro-ration.

Q MR. HARVIE: Do I gather from that that with thousands of buyers in Texas buying hundreds of thousands of barrels of oil, there is still a surplus of oil available and that market only runs to two or three per cent?

A That is right.

Q Of what could be supplied?

A That is right.

Q So that the situation is this, to put it in what you might call a layman's expressive language, the market is flooded?

A That is right.

Q THE CHAIRMAN: And yet all the major companies are seeking out new oil fields are they not?

A Yes sir.

Q Because you know that the use of oil is making a tremendous demand on the present reserves every day and

every hour?

A That is right sir.

Q Should that not be reflected in the price, the danger of running out of the reserves?

A Possibly that is a factor.

Q Would the discovery of new oil fields in Roumania affect us in Turner Valley?

A Indirectly I would say it would.

Q MR. COMMISSIONER LIPSETT: Mr. Woolley, you told us something about this Toronto Pipe Line, which, I understand was completely your Company's property?

A Yes sir.

Q You maintained a 15 cent per barrel rate on that line right to the very end?

A I think so. I am not familiar with the details right now. I think that is right, 15 cents.

Q Was the fact of maintaining a 15 cent rate one of the factors which caused crude oil to cease to flow through that pipe line?

A No, not at all.

Q Now we have heard from Mr. McGrath yesterday that the Imperial Oil were in a position to buy crude oil in the Cutbank field as low as 75 cents per barrel. If that statement is correct, and economics or competition governed the situation in any way, would not that put Turner Valley completely out of the market, both for your company and for the Imperial?

A I would think so.

Q It is only fair to say he said they could buy it below 95 cents but he felt they could buy it as low as 75 cents. In the face of that is there any real competition

as distinct from the control of Imperial Oil or Imperial Oil plus B.A., is there any real competition between Montana and Turner Valley?

A Yes, I would say there is.

Q Can you indicate what, in your opinion, it is?

A I do not know just what the price structure is today in Montana. The posted price, there is none. The last I saw of it it was $1.15 a barrel. Now what it is selling at and what you can buy it for today I do not know. But there is a price somewhere I will say between 75 cents and $1.15 where it would be cheaper to run Montana crude than it would Turner Valley crude. What that price is I do not know.

Q As far as that price, the posted price is concerned, is that a price that is set by the Imperial Oil, or by some other companies controlling Imperial Oil?

A No, that is posted, I think, in Montana, the posted price is done by the Continental Oil Company. I am not sure of that name. It gives the name of the company in the posted price in Montana.

Q If you will follow that up a little by telling us if you know whether any company, any other company controls Continental Oil Company?

A No, I do not know who has control of that.

Q Have you any reason to think that that is an independent competitive company as against say Standard Oil of New Jersey?

A I do not know the set-up of the company at all.

Q Your knowledge does not take you far enough to be able to tell us if there is any true competitive price in Montana?

A No, I am not an executive of the company. I am not dealing in all phases of the industry. My work is mostly in the refining business.

Q And unless there is a true competitive price in Montana is there any soundness behind this theory of competition?

A Is there any what?

Q Is there any soundness in this suggestion to us about competition from Montana oil, either at your refinery in Moose Jaw or the Imperial?

A Oh yes, I should think there would be, yes sir.

Q Supposing we put it to you this way, assume for the moment there is no competition, and both fields were controlled by one organization, Would not that corporation be strong enough to go to Montana and say "Now you must cut your price down to that or otherwise we will give the whole business to Turner Valley." And then come back to Turner Valley and say "We can get Montana at such and such a price, and if you do not go below that we will give it all to Montana". If there is no real competition, is not that the alternative?

A Well I think there is. I am not familiar with the Montana field, what it is like, or here. I am not really qualified to give an opinion on that.

Q Would you consider it safe for us to assume there is real competition in the absence of somebody who will give us definite information?

A I should think there would be in Montana - I am not sure of this - I do not think they are under pro-ration at all. That field is producing down there, and they are selling it at what they can today. There is no

posted price on Cutbank.

Q It is a different question to pro-ration?

A There is your competition.

Q Whatever the quantity of oil is, if they have only one or two co-ordinated buyers, are they in the hands of those buyers, whether they are pro-rated or not?

A Yes sir.

Q It would be of interest to me to get some definite information as to whether there is genuine competition. We get the assumption but we have nobody come and say that they know there is, or if there is not real competition.

A I think we could work up a picture for that.

MR. HARVIE: I do not know whether we should undertake to do that. Our company has but a very small interest in Montana, a comparatively small interest, and to go that trouble and expense, I think that is the Commission's business and not ours. We will be glad to give any assistance we can within reason to the Commission.

MR. COMMISSIONER LIPSETT: I am just putting this question. We have had two witnesses now, neither of whom can give any evidence as to real competition. Both of them put in figures, and asking us to assume there is real competition. That is just the point.

MR. HARVIE: Is not this situation the same as the wheat situation? It is awfully hard to pin down.

MR. COMMISSIONER LIPSETT: Wheat is very different, because there is an uncontrolled world market in that.

MR. HARVIE: This is just my view, but

I think the world markets of oil are just as uncontrollable maybe. There is certainly a greater surplus of oil to meet the immediate market than there ever has been in wheat. Here in one field alone there is only 2% being used.

THE CHAIRMAN: Whatever this Commission may ultimately find, it has not yet suggested that either the B.A.,or the Imperial are not paying the proper price for crude oil. I think it is fair to make that clear, whatever conclusions we may ultimately come to upon that subject if we find occasion to deal with it. I have said it appeared to me quite clear that B.A., and Imperial could fix such a price as they liked today and the Turner Valley producer must take it.

MR. HARVIE: I appreciate your position there.

THE CHAIRMAN: I have not said that they have not been most benevolent in their attitude.

MR. HARVIE: Well generous, maybe.

THE CHAIRMAN: I have not discussed that phase of it.

MR.HARVIE: I think it is one that should be considered.

THE CHAIRMAN: I do say at the moment it appears to me that all this talk about competition might or might not be beside the point, because tomorrow Mr. McLeod may post a field price and on the evidence we have today the B.A., will follow it, and that field price will be exactly what Mr. McLeod or his superiors may wish to post. They may have excellent reasons for posting such a price, and that it is quite fair. But

that is aside from what I am talking about.

MR. HARVIE: Be it that way or the other, my suggestion is this, that if our company can in any way assist within reason in solving that problem, we will be glad to do it. But I quite frankly do not know what we could do at the moment. I do not know that the Commission are asking us to try and undertake to do that.. I do think, myself, that some marketing evidence has got to come in on that point.

THE CHAIRMAN: I am not asking you to undertake anything.

MR. HARVIE: If the Commission have any suggestion of any way we can assist we would be glad to do it.

MR. COMMISSIONER LIPSETT: I think the point was that the suggestion at the moment to the Commission is that the price is fixed by competition. If that is going to be urged I would like to have it proved. If, on the other hand it is going to be admitted that the price is fixed by one or two companies, then we would like to know that it is fair. As far as I am concerned I am not even throwing the slightest reflection on the price that exists.

MR. HARVIE: I think that is true. It comes back that possibly to answer that it will be necessary to bring considerable evidence in on the question of markets. May I illustrate. Mr. Commissioner shakes his head. But I again emphasize I do feel and I say this with all sincerity and respect to this Commission, that they do not appreciate the point that the industry is trying to make, or I am trying to make,

that the market is a real factor in what you are trying to solve now.

THE CHAIRMAN: Why not then now tell us all you know about marketing, because no matter how much you may talk about it we have decided, and our decision is going to stand, that we are going to deal with this pipe line thing first. Now if you have anything in the marketing, evidence upon marketing that has any bearing upon this, by all means let us hear that now. That is not being shut out because we are giving a decision on the pipe line now rather than in six months or whatever number of months it may be. Let us hear it now, and your evidence on marketing will not be lost to you. It will be available when you come to discuss marketing. Let us be quite clear. You are not being deprived of the opportunity of bringing in every bit of marketing evidence you have right now, if it has any bearing on the pipe line, and it will not be lost sight of when we come to deal with marketing.

MR. HARVIE: I can quite appreciate that. On the other hand, the agenda of the Commission and the proceedings has been we were dealing with this now and were to deal with marketing later.

THE CHAIRMAN: It has been made abundantly clear on at least five different occasions by me that anything that has any bearing upon the pipe line we want to hear before we are through with this pipe line end of it, and before we adjourn to give a decision on the pipe line matter.

MR.HARVIE: That is very fair.

MR. NOLAN: That applies quite as much

to Commission Counsel as it does to these two companies?

THE CHAIRMAN: Certainly so.

MR. FRAWLEY: Oh sure. I am certainly a party to any amount of delay that these companies think they need to bring forward to the Commission any marketing evidence that they have, even if the agenda has no head for it. If there is something in the marketing or even in the service station evidence that relates back to the pipe line I now, as far as I am concerned, ask them to go and bring it here and let me know how long they will be getting it.

MR. NOLAN: And I ask you to go and get any evidence that you think will assist this Commission to come to a conclusion on matters that are not within the knowledge of my client.

MR. FRAWLEY: Do not worry about me because I have put in all that I intend to put in.

MR. NOLAN: Mr. Commissioner said he was greatly interested in Montana, and the B.A., Company comes here without firsthand knowledge of it and the Imperial Oil comes here without firsthand knowledge of it. Surely there is somebody in the State of Montana who knows something about the oil industry there, and can give us some information of value on it.

MR. COMMISSIONER LIPSETT: That was not quite my position if I may correct you. We were handed certain details and figures by Mr. McGrath. We are handed now a map by Mr. Woolley.

MR. NOLAN: Yes.

MR. COMMISSIONER LIPSETT: Which draws certain inferences and we are asked to draw those inferences without being told by Mr. McGrath or by Mr. Woolley that these details are based on actual facts. In Mr. McGrath's case especially without any investigation of the Cutbank prices he gave us three totals based on 80 cents, 90 cents and $1.00 a barrel at Montana.

MR. NOLAN: At the well.

MR. COMMISSIONER LIPSETT: He comes and tells us his information is that his company can buy it at 75 cents if they wish.

MR. NOLAN: That is the evidence before the Commission.

MR. HARVIE: May I just suggest to the Commissioner, as I understood Mr. Woolley's evidence, it was he said that the information on that map was based on facts.

MR. COMMISSIONER LIPSETT: He has just given his evidence that the prices are actually competitive prices but when I come and ask them if they are really competitive prices no witness is able to give any information.

MR. HARVIE: I think Mr. Woolley has made his position clear, it is that he figures, in this true picture as he foresees it, that if the Montana situation does creep in it will be met in a different way than having Montana crude come in.

THE CHAIRMAN: Have you any questions to ask, Mr. Plotkins?

MR. PLOTKINS: Well I notice it is four o'clock. Unless you want me to start in.

MR. FRAWLEY: It is not quite four o'clock, unless the Commission thinks it is.

THE CHAIRMAN: No, we do not think it is four o'clock, but if you would like the night to think over your cross-examination we will adjourn now.

MR. HARVIE: I was hopeful that we might get through with Mr. Woolley.

THE CHAIRMAN: You will be here until Monday anyway?

A I would think so. I will stay here.

Q Then we will proceed the first thing on Monday morning with you. Since you are being given time to think over your examination, Mr. Plotkins, you can no doubt make it concise and to the point, because you will be able to have your thoughts clarified between now and Monday. Make it as short as possible.

(At this stage the Hearing was adjourned until 10.30 A.M., February 13th, 1939).

.....
.....

[illegible] story.

[illegible] : [illegible] It is [illegible] o'clock, unless the [illegible]

THE CHAIRMAN: [illegible] we [illegible] think it is four o'clock. [illegible]

[illegible] : [illegible] we might get through with it.

[illegible] : [illegible] be in [illegible] Monday morning.

I would think so. I will [illegible].

[illegible] with you. [illegible] over [illegible] make it [illegible] to be [illegible] able to have [illegible] Monday. [illegible] more [illegible].

(At this [illegible] until 10.00 [illegible], [illegible] 4th, [illegible].

. . . . . .

35

The Province of Alberta

IN THE MATTER OF THE PUBLIC INQUIRIES ACT

—and—

IN THE MATTER OF a Commission, dated the 12th day of October, A.D. 1938, to inquire into matters connected with Petroleum and Petroleum Products

Commissioners:

The Honourable MR. JUSTICE McGILLIVRAY
(*Chairman*)

—and—

L. R. LIPSETT, ESQ.

Session:

CALGARY, Alberta FEBRUARY 13th, 1939

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WITNESSES:

E X H I B I T S

. . . . . .

THE CHAIRMAN: Well we have had a rest now, and with what witness are we proceeding?

MR. FRAWLEY: I think we still have Mr. Woolley to finish his evidence.

LEROY EDWARD WOOLLEY, having been recalled, examined by Mr. Harvie said:

Q MR. HARVIE: Mr. Woolley, you are still under oath?

A Yes.

Q Mr. Plotkins I believe had just commenced his cross-examination?

A Yes.

Q MR. PLOTKINS: Mr. Woolley, you say you buy your Montreal and Toronto refinery crude requirements mostly in the East Texas field?

A Yes.

Q That is right?

A Yes.

Q Do you pay the current posted field price for the East Texas crude purchases?

A Yes.

Q You do, what company posts the field price for East Texas crude?

A I do not know.

Q Well it is subject to verification, you are not aware that the Humble Oil and Refining Company is the pipeline that posts the price in East Texas and most Texas fields?

A I do not know that, no.

Q Well you are not in a position to dispute that?

A No.

MR. FRAWLEY: If you will show Mr. Woolley the N.P.M., that will show it.

MR. PLOTKINS: I have not the last copy, the last copy shows plainly, you have the material there to substantiate it.

Q MR. PLOTKINS: In Exhibit "145", which is the National Petroleum News of January 25th, 1939, we read:

"Texas Fields posted by Humble Oil and Refining Company",

and it shows West Central Texas, East Texas, Panhandle Texas, North East Texas, West Texas and New Mexico, all posted by the Humble Oil and Refining Company, do you know who the Humble Oil and Refining Company is, a subsidiary of what company it is?

A No, I do not know.

Q No?

A I have no definite knowledge of it.

Q That the Standard Oil of New Jersey shows it as its subsidiary, as its direct subsidiary, the Humble Oil and Refining Company, would that be the same people that help, or do post the price in Turner Valley?

A You mean the Humble would help to post the price?

Q No, the Humble through Standard Oil of New Jersey post the price in the Texas field through the Humble Oil and Refining Company and the Standard Oil of New Jersey post the price in Turner Valley through the Royalite?

A Yes.

Q So both of those prices are posted by the Standard Oil of New Jersey?

A That is one way of looking at it.

Q And it would appear that the Humble Oil and Refining Company in the Texas field is the dominant factor insofar as purchasing crude oil is concerned?

A Because they post?

Q Because they are able to post the field price?

A Well I really do not know, Mr. Plotkins, whether that means that they are in a dominant position or not.

Q You are not familiar with the mechanics of posting field prices?

A Oh no, not at all.

Q Through what pipeline company do you gather your East Texas crude purchases?

THE CHAIRMAN: Excuse me, Mr. Plotkins, you have referred to an Exhibit filed showing the subsidiary, what is the Exhibit number, showing the subsidiary?

MR. PLOTKINS: Well I have not filed that, I am waiting for the list.

MR. FRAWLEY: All the subsidiaries of the Standard Oil of New Jersey, no, a list showing that has not been filed yet.

THE CHAIRMAN: Was there not a list showing some subsidiary companies of the parent companies?

MR. FRAWLEY: No.

THE CHAIRMAN: We talked of filing it.

MR. FRAWLEY: No, the only book is Exhibit

"164" which merely shows the Imperial subsidiaries and that the Imperial is itself a subsidiary of the Standard Oil of New Jersey, yes, I do not think we have really pressed Mr. Nolan about filing that, but it is a simple thing to file and Mr. Nolan might file it within the next few days.

MR. NOLAN: I do not know how simple it is, I do not know whether I can get the information or not.

MR. FRAWLEY: Well I think, I do not know, I would suggest that Mr. Nolan ask Mr. LeSueur.

THE CHAIRMAN: I thought it was probably in book form.

MR. FRAWLEY: No, Mr. Plotkins is the only one who has made mention of it. He said there was in the National Petroleum News or some such publication a statement to that effect.

MR. PLOTKINS: I will give you the facts as far as I know them, I mean as to how they can be procured and to what extent they can be procured.

THE CHAIRMAN: All right, if you know tell us.

MR. PLOTKINS: In the National Petroleum News in its Edition of---

THE CHAIRMAN: All we are concerned with at the moment, well perhaps you want that, it may be relevant.

MR. PLOTKINS: I have not the date here but I understand what I have in front of me is a cutting from the National Petroleum News in the latter part of

the year 1937. Now that issue of the National Petroleum News purported to publish a list of subsidiaries of the Standard Oil of New Jersey as disclosed by the Standard Oil of New Jersey in filing with the State Department in Washington a list of its interests or its companies in which it was interested directly or indirectly and that National Petroleum News issue made it plain that the list as published was not a complete one due to the fact that the State Department in Washington permitted the Standard Oil of New Jersey not to disclose all of its subsidiary companies because it might have a political or other repercussion. Now that is the situation to the best of my knowledge.

MR. FRAWLEY: What I will do, Mr. Chairman, right away, is to ask some of my friends in the investment business in Calgary to search some of their documents or books that will probably have that information and see if it cannot be made available.

THE CHAIRMAN: I was under the impression that some witness, and it may have been just an impression, some witness that said that the Humble Oil Company was a subsidiary of the Standard Oil of New Jersey.

MR. FRAWLEY: We have that in evidence, Mr. Deussen, if no one else, said that because he talked about the gentleman who was here, Mr. Moore, who did not give evidence----

THE CHAIRMAN: For the moment it seems to me that we are concerned with the Humble.

MR. FRAWLEY: So far as the Humble is concerned there is no question of it.

MR. PLOTKINS: No, they are published as one of the subsidiaries.

MR. FRAWLEY: That is in evidence.

THE CHAIRMAN: You can get your list from Washington of course in a very simple and sure way.

MR. FRAWLEY: Yes, we will get it.

THE CHAIRMAN: There is not oncealment about it. If Mr. Nolan can conveniently get it he will no doubt get it and if he cannot---

MR. FRAWLEY: We will get it.

THE CHAIRMAN: You can certainly get it from Washington but in the meantime for our present purposes, Mr. Plotkins, it appears as I thought it did, that it is in evidence that the Humble Oil Company is a subsidiary of the Standard Oil.

MR. PLOTKINS: Of New Jersey.

THE CHAIRMAN: Yes.

MR. PLOTKINS: We can safely assume that for the purposes of this cross-examination.

THE CHAIRMAN: I had the impression and Mr. Frawley confirms it that the witness Deussen established that, so you can accept that. That is your memory, is it, Mr. Nolan, I do not want to be wrong about the evidence, I certainly had that impression.

MR. NOLAN: wait until I speak to my friend, Mr. Frawley.

MR. FRAWLEY: We may not be able to make that assumption at the moment, we will check Mr. Deussen's evidence and then following that, I think

what Mr. Nolan could do and I am sure he will be good enough to do it, is to clear up the Humble alone, wire Mr. LeSueur today and ask for an immediate reply with reference to the Humble.

THE CHAIRMAN: If there is any doubt about it would you mind doing that?

MR. NOLAN: No.

MR. FRAWLEY: We will then clear up that one company.

MR. NOLAN: What is it called, the Humble Oil and Refining Company Limited?

MR. PLOTKINS: Not Limited, The Humble Oil and Refining Company.

MR. HARVIE: Which controls 100% of the Humble Pipeline Company.

MR. FRAWLEY: And then my friend and I might confer before he sends the wire because there is the Carter Oil Company which does a lot of posting in the Mid-Continent and which I understand they are interested in and the Magnolia Company which does some positing and I understand is also a subsidiary and they can be included in the one telegram.

THE CHAIRMAN: It might be proper to find out about your Illinois.

MR. PLOTKINS: Who posts the price there?

MR. FRAWLEY: Yes, I was wondering, you were going to do that, Mr. Nolan, but Mr. McGrath went. You recall he was going to get us that information.

MR. NOLAN: Yes and I have that.

MR. FRAWLEY: We might as well put that in now then, yes, here is the telegram, I will read the telegram, it is dated Toronto, February 10th, that is on Friday last, 606 - Second Ave.,H.G.Nolan, Calgary, it is from Mr. L. C. McCloskey, Vice-President in charge of refining for the Imperial Oil.

THE CHAIRMAN: Mr. McCloskey is what?

MR. FRAWLEY: Well he is the Vice-President in charge of manufacturing for Imperial Oil Limited.

THE CHAIRMAN: The telegram is dated?

MR. FRAWLEY: Dated Toronto the 10th of February, I recall now that we asked Mr. McGrath to tell us from whom they purchased their Mid-Continent crude as well as the Illinois and this telegram deals with it, and I will read the telegram now.

"

Toronto Ont

H G NOLAN

606 SECOND AVE CALGARY

YOUR WIRE EIGHTH MID CONTINENT CRUDE PURCHASED BY IMPERIAL LAST TWELVE MONTHS WAS FROM CARTER OIL COMPANY WHICH IS BOTH A PRODUCER AND PURCHASER IN THE MID CONTINENT FIELD AND SUBSIDIARY OF STANDARD OIL COMPANY NEW JERSEY STOP ALL SUCH CRULE PURCHASED FROM THEM WAS AT CURRENT PUBLISHED WELL PRICES FOR MID CONTINENT FIELD STOP ILLINOIS CRUDE PURCHASED BY IMPERIAL LAST TWELVE MONTHS WAS FROM OHIO OIL COMPANY BOTH A PRODUCER AND PURCHASER AND UNRELATED TO STANDARD OIL COMPANY NEW JERSEY OR IMPERIAL STOP ALSO PURCHASED

"ILLINOIS CRUDE FROM CARTER OIL COMPANY WHICH IS BOTH A PRODUCER AND PURCHASER IN ILLINOIS FIELD STOP ILLINOIS CRUDE FROM BOTH SOURCES PURCHASED AT CURRENT PUBLISHED WELL PRICES IN ILLINOIS FIELD STOP MID CONTINENT CRUDE PURCHASED FROM CARTER WAS TRANSPORTED THROUGH PIPE LINES OF WHICH FORTY SEVEN PERCENT OF MILEAGE WAS PARTLY OWNED BY STANDARD OIL COMPANY NEW JERSEY AND SUBSIDIARIES FOURTEEN PERCENT OF MILEAGE OWNED BY SUBSIDIARY OF IMPERIAL OIL LIMITED AND THIRTY NINE PERCENT OF MILEAGE OWNED BY UNRELATED INTERESTS STOP ILLINOIS CRUDE PURCHASED FROM OHIO OIL COMPANY TRANSPORTED THROUGH PIPE LINES OF WHICH THIRTY THREE PERCENT OF MILEAGE IS OWNED BY SUBSIDIARY OF IMPERIAL OIL LIMITED AND SIXTY SEVEN PERCENT OF MILEAGE OWNED BY UNRELATED INTERESTS STOP ILLINOIS CRUDE PURCHASED FROM CARTER OIL COMPANY TRANSPORTED THROUGH PIPE LINES OF WHICH THIRTY TWO PERCENT OF MILEAGE IS OWNED BY SUBSIDIARY OF IMPERIAL OIL LIMITED AND SIXTY EIGHT PERCENT OF MILEAGE OWNED BY UNRELATED INTERESTS STOP IN ALL INSTANCES CRUDE OIL WAS TRANSPORTED AT INTERSTATE COMMERCE COMMISSION PUBLISHED TARIFF RATES

L C MCCLOSKEY "

(TELEGRAM PRODUCED HERE MARKED AS EXHIBIT "166")

THE CHAIRMAN: All right, Mr. Plotkins,

Q MR. PLOTKINS: Do you know, Mr. Woolley, through what pipeline do you gather your Texas Crude?

A No I do not know anything about the operations in Texas.

Q Are you in a postion to acquaint us or acquaint the Commission what pipeline does your gathering or through what firm you do your purchasing, your company is in a position to supply that information?

A Ch yes.

Q Do you know that your company purchases its requirements through the Humble Oil and Refining Company?

A No, I do not know anything about that.

Q Does your company, the B. A. the British American Oil Company or any of its subsidiaries such as the British American Producining Company or any others have any working arrangements with other producing companies in the United States?

A I do not know.

Q You do not know?

A No, I know nothing about production.

THE CHAIRMAN: Mr. Woolley concerns himself with the refining end?

A Yes.

Q MR. PLOTKINS: But you are not in a position to say as to whether any arrangements exist that would enable your purchasing company to exchange crude oil or production for crude oil with some other producing companies?

A No I do not know that.

Do you know if that is not a current practice between large companies?

A No I do not know, I am not familiar with the production business in the States.

Q If it were it would not make very much difference then whether it was produced by your company or by some other company so long as you can get your crude in the field at the most economical, that is that you could lay down your crude at the most econmmical price, it would make no difference who produced the crude, to you?

A I do not know that I understand your question, Mr. Plotkins.

Q Assuming that you produced in Kansas, I understand you do?

A Yes.

Q And in Oklahoma?

A Yes.

Q But you do not find it economical to ship from Kansas or Oklahoma because you are buying East Texas?

A That is right.

Q Now if that crude which you purchased in Kansas and in Oklahoma?

A Yes.

Q Could be sold to a refining company that also has crude production in East Texas, it would be possible then to make an arrangement to save both companies?

A Well it might be, yes.

Q In other words, this company that you exchange with may be able to use your Oklahoma?

A Yes.

Q Or your Kansas crude much more economically in their refinery?

A That is right.

Q Then to bring it in from Texas?

A Yes.

Q And by that token the fact that you do not produce your Texas crdue does not mean anything on an economical basis?

(Go to number 4273)

L. E. Woolley.

A What do you mean?

Q I will put it this way. If you sold your crude in Oklahoma and Kansas to another Company who was in a position to use that crude to refine it in that particular territory, and sold it to them at the posted field price, which is what you would do, now if you purchased from that same Company or one of its subsidiaries or one of its related companies in the East Texas crude at the posted field price you would be in a position to benefit from any producing profits in Oklahome or the Kansas field?

A Yes sir.

Q And the other Company would be likewise in the same position?

A That is right.

Q So that would mean there would be a balance of interest?

A Yes. You are assuming we do that. I do not know that we are.

Q I am asking you if that is not the common practice?

A I do not know. You are assuming it is done.

Q I am assuming that it is done and I am asking you to assume that?

A All right.

Q Assuming you do, that would be good economics would it not?

A It is, yes.

Q And if it is would it not be natural to find such a condition exists? In other words you as refinery man would not allow your company to ship Oklahoma or Kansas crude if such an arrangement could be made?

A That is right.

Q So you are not in a position to say whether the present arrangement, your present arrangement with the East Texas is not on that basis?

A No, I do not know.

Q When the Illinois crude prices made purchasing it more economical than your regular East Texas crude did your Company approach the East Texas producers supplying your needs and ask them to adcept for their crude a lower price, corresponding in value to the price of the Illinois crude. You do not understand my question?

A Just read that again.

Q When the Illinois prices began to affect your business, in other words when you considered it was more economical to purchase in the Illinois field, did you go to your East Texas producers, that is the people you buy your crude from, directly, and say to them "Well now, you are going to have to take so much less if you want to keep this business, if we are to continue purchasing from you."

A I do not know anything about that, Mr. Plotkins. I do not think there has been any deal of any kind about the Illinois crude. I have said we have not run any Illinois crude. We have not purchased any.

Q What I am asking you is not so much that as it is when you are faced with a situation of new development, the Illinois crude coming on the market at a lower price and that price is such that you could lay down in your Toronto or in your Montreal refineries Illinois crude cheaper in value than you can your present source, or your East Texas source, you are not going to just disregard that fact. You have told us that everything is based on

economics, based on the cost, is that not correct?

A Yes.

Q So that you are not going to disregard that new situation. What you would do would be to abandon your East Texas production and buy in Illinois, or would you go to your East Texas people.....

A You are asking me something about production which is something I know nothing about. It is a situation I know nothing about at all. I was speaking of the refining and processing of crude and shipping, the economics of that. I am not talking about the economics of production.

Q Mr. Woolley, in order for you to intelligently give this Commission, as you have done, maps purporting to show the economic limits of shipping one crude against the other for your refined products?

A Yes.

Q You must have informed yourself as to the basis of purchasing that crude?

A The basis was the posted price of the crude.

Q Now I am asking you the question again, would you just ignore the East Texas producers from which you purchase and say the posted field price in East Texas is too high and we can purchase in Illinois and we are going to purchase, or would you give them an opportunity to meet the price or how would you do that?

A I say I do not know. I cannot speak of that. I am not an executive of the company. I know nothing about the production or how it is run.

Q So that you have accepted in making these computations somebody else's word as to the economics of crude costs?

A There is nothing in my evidence about costs of crude. The purchase price of crude, the economics of crude or producing crude; or how they regulate the price. I do not think I have attempted to explain that.

Q Well, is not this the position, you have assumed that for your purposes your Company can disregard the question of the posted field price in Illinois, because your company was in a position to see to it that the price, the posted field price in East Texas would be.....

A No.

Q On a par or a parity?

A No.

Q You have not assumed that?

A No.

MR. HARVIE: He said East Texas dropped 25¢ as the result of something, of which possibly Illinois was factor.

Q MR. PLOTKINS: Possibly Illinois was a factor? To your knowledge then, do you know whether your Company approached the Humble Oil Refining Company?

A No, I know nothing about that.

Q So we have to find these things out?

A From someone else besides me.

MR. PLOTKINS: Mr. Chairman, am I going to be given the opportunity to find out from the people who can tell us about these things? They apparently affect the price.

MR. FRAWLEY: I do not want to interfere in the least with Mr. Plotkins' cross-examination but I feel, Mr. Chairman, that there could be a good deal more of what Mr. Nolan has done this morning, and I am sure Mr.

Harvie is very anxious that more should be done - but a great deal could be done by having Counsel make statements on these questions unless they are too involved or on matters that are too controversial. Perhaps this is something Mr. Harvie could be instructed about or could get a telegram or have a telephone conversation about.

THE CHAIRMAN: It seems to me you might well see, Mr. Plotkins at the noon hour, if you can and see what Mr. Plotkins has to suggest as to the ways and means of getting the information here that he would like to get here. It may be that between you you can work out a convenient means of doing it. It may be everything he wants to know Counsel will admit - Counsel who represents the Companies from whom he seeks to get the information. It may be worked out and I think you had better have a discussion about it together.

MR. FRAWLEY: That is what is in my mind. I think we should do that. I am quite certain the British American Oil Company wants to give us all the informaton.

THE CHAIRMAN: I am quite sure there is not a sign of any attempt to keep anything from the Commission that it wants to know.

MR. HARVIE: We want to co-operate in every way.

THE CHAIRMAN: Quite so, and that has been the position throughout, and I have no doubt it will continue to be. I think Mr. Plotkins it is the simple thing to get in touch with Mr. Frawley and see what you want to establish and in what way you can suggest it could be

established. Commission Counsel will try and meet you and he, perhaps, may accomplish it by admissions from Counsel of this Company with respect to matters that are really not in dispute, but just lack formal proof.

MR. PLOTKINS: Do I understand this Commission is anxious to determine the mechanics of how the prices are finally decided on, so as to be able to weigh the effect of these practices, not only on the pipe line activities, but on the marketing activities.

THE CHAIRMAN: Not as yet, no. Mind you, if it is necessarily associated with the pipe line matter, all right, we want it, and we won't exclude it because it is concerned with something else as well. But at the same time we are now attempting to reach an end of this pipe line inquiry. You, like everyone else, I am sure, are giving your time to this and are anxious to bring it to an end. We want to get the information as expeditiously as we can. After your conference, if there is any occasion for speaking to us about it again, you may, of course. It may be that your difficulties of proof will be ironed out. Is there anything more from Mr. Woolley, bearing in mind he is purely a refiner?

MR. PLOTKINS: I am going to skip these other questions purely on that matter.

Q Does your Company interest itself financially in the properties of its crude suppliers?

A Beg pardon?

Q Does your Company interest iteelf in the operations,

in a financial way in the operations of the people supplying you with crude oils?

A I understand they do. I do not know anything about it but I understand that they do.

Q Do you know that is the case in Turner Valley?

A Well I really do not know, Mr. Plotkins, anything about the production business at all.

Q So we will get that from somewhere else?

A I have heard that they do.

THE CHAIRMAN: What do you mean, Mr. Plotkins, finance the drilling of wells or what?

MR. PLOTKINS: In various ways. Finance the drilling of wells, finance promotion companies and all the ways that are open to the trade to stabilize these crude supplies.

THE CHAIRMAN: That is something you can find out, and answer, could you, without bringing a witness here, Mr. Harvie?

MR. HARVIE: If there is any possible way of doing it I will try. It does open a large question such as the one raised by the Chairman on Friday as to the American producing subsidiaries. As far as giving facts and figures of our operations in Turner Valley, I think there will be no difficulty on that at all.

THE CHAIRMAN: That is all that is asked.

MR.HARVIE: Whether Mr. Plotkins' suggestion does not go much further, as to whether we do not stabilize prices of our production in view of the production from other fields.

THE CHAIRMAN: I understand Mr. Plotkins

wants to know - we do not want to enter into a lot of things in this Inquiry that does not have any bearing on it - but Mr. Plotkins merely wants to know do you finance wells in Turner Valley in any way with a view to assuring yourselves of production from Turner Valley wells?

MR.HARVIE: I can answer that in a general way. If you wish any detailed information we shall have to get that. My general statement would be that British American Oil Company has, through loans and other similar type of ways, assisted in the drilling of wells in Turner Valley. Generally speaking it is done on the basis of a loan with repayment out of production, some bonus, and a production contract.

MR. PLOTKINS: That is all right. My sole reason that I asked that question is that it comes directly in the matter of stabilizing the output that will go through this pipe line. If your Company has assured itself, through its operations, of the crude supply for a number of years it is not likely that they are going to change their crude supply over night or even this year?

A No.

Q And it is a reasonable business practice to do so, to aasure yourself of a continuous supply of crude. Would you not think so?

A Yes.

Q And the same thing, no doubt, exists in your operations in East Texas. You would not buy from day to day? You have to charter tankers and you have to command other facilities and you would not be likely to embark on

operations in East Texas on a day to day or even a year to year basis?

A That is right, in a general way.

Q So that all these company operations are not subject to fluctuations from day to day. I mean the fact you buy Illinois or that you buy in Texas is not going to be decided over night?

A No sir.

Q It takes quite a little preparation to weigh the pros and cons and to make new arrangements etc.?

A Yes.

Q So that the pipe line in Turner Valley is not likely going to lose its through put in a year?

A In a year?

Q Inside a year, this year for instance?

A There are many things that enter into that. I do not know that.....

Q Well you do know that your Company has financial commitments or has invested money at least . Your solicitor agrees to that?

A Yes sir.

Q So that in order to get that money back and in order to carry out your other commitments that you may have, you are not likely to just wait on the side and jump into some other field?

A I think all these commitments are made on the basis which permit us to cancel these contracts any time we wanted and not take the crude. I think that is right. I do not think in any of our refineries are we tied up with a crude beyond a year's period anyway, where we would have to take any one crude forever. If that is what

you mean?

Q Yes? Partly I mean that. That brings us to another point.

THE CHAIRMAN: Have you seen these contracts, Mr. Frawley?

MR. FRAWLEY: These contracts for the purchase of crude?

THE CHAIRMAN: Yes.

MR. FRAWLEY: We have seen the Turner Valley ones.

THE CHAIRMAN: That is what we are talking about, with British American ?

MR. FRAWLEY: Yes. Mr. Harvie put in his crude purchasing contracts.

THE CHRIAMAN: I thought so too. I have not examined it. Does it contain a provision such as the witness suggests?

MR. FRAWLEY: I offhand do not think so. I was thinking about the Montana situation.

THE CHAIRMAN: Do you know Mr. Harvie?

MR. HARVIE: I think it is a legal interpretation. I think Mr.Woolley's statement is correct.

MR. FRAWLEY: That you can cancel at any time?

MR. HARVIE: I do not say cancel, but for economic reasons, they only have to take such a portion that for economic reasons they can and they are to some extent tied to that. But I think the contract speaks for itself.

THE CHAIRMAN: Quite so, but I just

thought it would probably be a very simple clause if it was in there, and you might tell us now. However, we will examine it for ourselves. Do not bother if nobody knows.

MR.HARVIE: My impression is that Mr. Woolley's statement is maybe a fair statement.

MR. COMMISSIONER LIPSETT: Is it not for the life of the well?

MR. FRAWLEY: That is as far as the producer is concerned for the life of the well..

MR. HARVIE: No, it works both ways.

MR. FRAWLEY: You said it was up to your Company to decide.

THE CHAIRMAN: The suggestion that is thrown out is while the well is tied up you have the use of the oil, but if the interpretation of the contracts given by the witness is the correct one, then you can, instead of all the production, that you may say at any time you like, well it is not economically sound to take all you have produced.

MR. HARVIE: In that case I think the contract goes on to provide that the producer can sell elsewhere. It is just as long as we do, we have the option to buy all at the posted price. Failure releases us from that contract to the extent we do not buy.

THE CHAIRMAN: It speaks for itself as you say.

MR. PLOTKINS: Could I ask Mr. Frawley a question in that respect? While I believe Mr. Harvie's statement is substantially correct, I know that the Imperial Oil Company contract does not provide,

or it has not a condition in for the termination and the position of the producer would then be in, in a case such as we have under consideration, the Imperial would insist that the well be closed down, and no market be taken out of the department by the producer selling elsewhere while the Imperial was buying crude somewhere else.

MR.HARVIE: I did not understand Mr. Woolley was talking about Imperial Oil contracts.

MR. PLOTKINS: No, but I am just asking this question at this stage of Mr. Frawley.

MR. FRAWLEY: Well we will look at these two contracts now, both the B.A., and the Imperial. I will have them both here in a minute.

THE CHAIRMAN: It raises a question and not an unimportant one about the position of the producer with respect to the sale of oil, which has a bearing on the through put of the line.

MR. FRAWLEY: Quite so. I would like Mr.Woolley to deal with some question of the Montana situation.

Q Do you recall that your Company when we were, - or shall I say when the Alberta Government was pressing it to use Turner Valley crude rather than Montana crude, do you recall, Mr. Woolley.....

A That was about a year ago.

Q Yes, at the end of 1937 wasn't it?

A Yes sir.

Q Do you recall your Company asked for some time because they had commitments in Montana which they had to carry

out and they ran for quite a few months after the Imperial discontinued importing Montana?

A I believe so, yes sir.

Q Because of the commitments?

A Yes. I believe that is correct, because we had some crude left over last year in Montana.

Q You continued to import pipe line run for quite a time after the Imperial and because of the fact you were not able to get rid of your commitments quite as handily as the Imperial, do you recall that?

A I think there was something like that that governed the Montana situation.

Q That would suggest you are tied up to these producers a little more perhaps than I gathered from your last answer, that you could discontinue?

A Yes. Well, I think my statement was I did not think that any of our refineries were tied up with definite contracts so that we could not change the source of supply of crude. That would be very poor business.

Q But the Montana experience would rather indicate you were?

A For a short period yes.

Q For some, quite a few barrels of crude?

A For some months.

THE CHAIRMAN: As Major Lipsett said it might be stock on hand.

Q MR. COMMISSIONER LIPSETT: Do you know which it was? Do you know whether the delay in Montana was on account of commitments that you had with wells, or on account of stock you had on hand?

A No, I really do not know about that situation in Montana,

but it may have been both. We carried down there, in operating periods, quite a few thousand barrels of oil and then we also had some commitments, I think they both entered into it.

MR. PLOTKINS: Mr. Chairman, maybe Mr. Nolan could give us the information with respect to the Imperial Oil Contracts.

THE CHAIRMAN: Haven't you the Imperial contract in?

MR. FRAWLEY: Yes, there is no doubt about the Imperial, it is in.

THE CHAIRMAN: They are both in, whatever they say they say., e cannot change it.

MR. PLOTKINS: Mr. Nolan might have a different interpretation on that contract.

THE CHAIRMAN: We will hear him in argument about that. It has nothing to do with this witness in the box.

MR. FRAWLEY: This is the Royalite one, Exhibit "30", if it has any value to find out what the clause is and read the clause in. That is the Imperial. Mr. Woolley cannot say anything about that. And now we have the British American, it is Exhibit "132".

MR. PLOTKINS: I think it has a serious bearing on the question.

THE CHAIRMAN: Certainly it may have a bearing and its bearing will be elaborated on by Counsel and by you if you wish in argument after this evidence is all in. But we cannot change that agreement by asking questions about it or hearing Counsel's interpretation. Because when they put an interpretation on it, we might

put a different one on. If it is a matter of interpreting the agreement that is just a matter of interpretation and not evidence.

MR. PLOTKINS: I realize that. The only thing is in asking this witness questions, I am assuming certain conditions exist in Turner Valley based on these contracts.

THE CHAIRMAN: The truth of the matter is this witness does not know anything about Turner Valley or production anywhere else apparently?

A That is right.

Q That is his frank position?

A Yes sir.

Q He is a refiner and he is here on refining. He has produced some maps which, I take it, he has had prepared.

MR. PLOTKINS: I understodd, Mr. Chairman, that Mr. Woolley came here prepared to tell us all about the Company's operations?

A No sir.

THE CHAIRMAN: Mr. Woolley did not so understand.

MR. FRAWLEY: Will it serve any purpose if I read into the record a couple of paragraphs from the British American agreement which indicates what the rights of the parties would appear to be, subject to what may be argued about them?

THE CHAIRMAN: Well just to refresh our memories about them.

MR. FRAWLEY: This is Exhibit "132". Clause 1.

L.E.Woolley.

"1. The Vendor covenants and agrees to sell to the Purchaser and the Purchaser agrees to purchase from the Vendor, except as hereinafter otherwise provided, all such oil produced from the above described lands from the date production is from time to time obtained and for so long as any such oil in commercial quantities is produced therefrom, the Purchaser to take delivery of the said oil from the Vendor's tankage at the place of production after measurements by the representatives of the Vendor and the Purchaser have been made, which oil, when so measured, shall be subject to a reduction of two (one) per cent (2(1%)) representing pipe line loss. PROVIDED the Purchaser shall not be required to take deliveries in less than tank lots of two hundred (200) barrels, and the Vendor shall supply the necessary pumping equipment and fuel therefor. PROVIDED FURTHER that this Agreement shall not apply to any royalty oil payable to the Lessor under the herinbefore described leases and to any royalty oil payable to any predecessor in title of the Vendor under its Sub-lease of the said lands if such royalty oil is taken in kind by the Lessor or prodecessor in title under the terms of the said Lease of Sub-lease."

"The purchaser covenants and agrees to pay to the vendor for such oil at the current market price prevailing at the field for a like product at the place and time of delivery and subject to the terms of this contract on the same terms and conditions such payment to be made not later than the 20th of the month following that on which such production is received."

6. "The purchaser further covenants and agrees to accept all said oil produced by the vendor and delivered in accordance with the provisions of this agreement from the said lease for the period as hereinbefore defined, provided that in the event there should be available to the purchaser from the Turner Valley field any such oil in quantities in excess of the purchaser's economic market requirements in the said field and it should consider it advisable to curtail its purchases therefrom, of which facts the purchaser shall be the sole judge it shall not be necessary for the purchaser to accept under this contract all such oil the vendor is able to deliver. In such event the purchaser may make the required reduction in quantity of such oil to be purchased hereunder subject to the following terms and conditions, namely:

(a) The purchaser agrees to take in the first instance a minimum of 250 barrels or 50%, whichever is the greater, of the available and or allowable production of the well or wells on the said property provided that for the period of the first sixty days after production and in order to allow the purchaser an opportunity to arrange for and construct necessary

storage and transportation facilities, it will be required to accept an excess of three hundred barrels per day."

That is the case, it is the opening part, the principal part of this which you had reference to.

MR. HARVIE: Yes, I think it goes on, and the effect of the following clauses is that we have to give so much notice, and after that notice becomes operative, any oil we do not buy the other people are permitted to buy.

Q MR. FRAWLEY: I will read another clause. "At any time, including the said sixty day period, the purchaser may notify the vendor of the maximum daily amount it is prepared to accept, which amount shall become effective thirty days after date of such notice; Provided, however, the said notice shall become effective immediately in case general proration is from time to time applied in the said field."

However, that is the effect of it.

THE CHAIRMAN: All right, it will speak for itself, whatever it is.

Q MR. PLOTKINS: So that, Mr. Woolley, you have heard read the extracts from the standard contract; by the way, Mr. Harvie, is that the same contract for everyone, is that the clauses which are in every one?

MR. FRAWLEY: Mr. Harvie made a statement about it.

MR. HARVIE: With the explanation that it is the last form used. They have varied from time to time.

Q MR. PLOTKINS: There would appear to be a definite committment for a minimum amount of oil for a certain period, you have just heard it read?

A Yes.

Q So that for some time in Turner Valley then, even with certain conditions in other fields which would permit you to buy oil cheaper, you would still be taking oil from Turner Valley at the posted field price to the extent of your committments?

A Well, we think we are.

Q I mean that is the contract?

A Why, no, we are taking oil here, yes, is what what you want?

Q Well, I mean in view of your contract?

A Yes, we are, I think we are living up to the contracts, whatever they are, I do not know what they are.

Q You know to the extent to which it has been read?

A Yes.

Q To that extent it would appear you have some definite committments?

A Yes.

Q And the pipeline is not going to be deprived of that much business, at least for some time?

THE CHAIRMAN: The witness, you see, that is a matter of argument, this witness ca not help you, he does not know.

A I do not know.

THE CHAIRMAN: You get him out of his particular field and he does not know anything about it.

A You are talking about importations of production, that I do not know anything about it.

THE CHAIRMAN: You are at liberty to argue that before us when the time comes. He has really gone further

because he has given his estimate for next year.

MR. PLOTKINS: For this year, you mean?

THE CHAIRMAN: For 1939, that is correct, Mr. Woolley?

A Yes.

Q MR. PLOTKINS: On Friday, Mr. Woolley, you remarked that you expected conservation measures in Illinois, did you mean imposed by the State?

A I think my testimony was that I had read that the State had sent a committee or commission to Texas and Oklahoma to investigate the methods.

Q Of conservation?

A Of conservation, yes.

Q So that it is to be expected that in Illinois there is going to be some sort, some measure of conservation?

A I think so.

Q If this Commission reports, and the Government sees fit to enact legislation?

A Yes.

Q Now, normally would you expect the State of Illinois to enforce conservation measures to bring about efficiency, efficient producing methods and prevent waste only; in other words, what is the State's position, it wants to see its resources capably developed and without waste?

A Yes.

Q Well, that does not necessarily mean then that this Conservation Commission, which might be set up in Illinois, is going to concern itself with regulating markets as between States?

A I did not say that.

Q Then it is to be implied then, in your remarks, that what

you meant was that there would be waste prevented and efficient production methods?

A Yes.

Q But not necessarily less crude finding its way into the market?

A No.

Q Or any difference in price?

A No, I didn't say that.

Q So that all your statement.....

THE CHAIRMAN: The witness did not answer that, he just started, finish your answer.

A Would you read me the question, please?

(REPORTER - reading;) "Q Then it is to be implied then, in your remarks, that what you meant was that there would be waste prevented and efficient production methods? A Yes. Q But not necessarily less crude finding its way into the market? A No. Q Or any difference in price? A No, I didn't say that."

A That is the end of my answer.

THE CHAIRMAN: All right.

Q So that what you now say, you mean when you made that remark is, there would be some sort of conservation measures but not rnecessarily restriction of production?

A No, I did not mean that.

Q Well, why would you make that remark if you did not have in mind some sort of restriction in order to stabilize the market?

A Well, I think that conservation, that when you conserve your field that there is restriction of the market, not of the market but of the production.

Q Why, it may be conceived and it is fairly conceivable that

a well can produce efficiently and not have any restriction as to the amount it can produce imposed on it by some governmental body?

A That may be, I do not know, Mr. Plotkins, you have got me out in the production field again and I do not know anything about production, I am trying to answer these questions.

Q THE CHAIRMAN: We are just wasting time, what you are putting to this witness, are your views based on evidence presumably which can be put to us in due course, and whichwe will listen to, but he cannot answer, that is the trouble, he does not know, his answers are of no value to us.

MR. PLOTKINS: Then is his statement to that extent that he made it, that some conservation measure in Illinois may affect the production and price, of no value, is he competent then to make that statement?

THE CHAIRMAN: I do not know whether he is or not, all he knows is that he read somewhere that some Commission might be set up to make enquiries.

MAJOR LIPSETT: He has already, Mr. Plotkins, given you evidence that in his opinion the British American company will be able to use 1,600,000 barrels of Turner Valley crude during 1939; now, do you want to go any further than that?

MR. PLOTKINS: Oh, yes, in that respect, Mr. Commissioner.....

MAJOR LIPSETT: Yes?

MR. PLOTKINS: Well, I am coming to that a little later.

MAJOR LIPSETT: He has given you a very fair and careful estimate, you see.

MR. PLOTKINS: Well, I am going to question, Mr.

Woolley, a little further on that.

THE CHAIRMAN: He does not know and he says he does not know; now, whatever answers you may exact.....

MR. PLOTKINS: You see, Mr. Chairman.....

THE CHAIRMAN: I know it is unfortunate that he does not know more but his experience is limited to the refining end, as he tells us, and you must accept that.

MR. PLOTKINS: My difficulty, Mr. Chairman, is to conceive of a man at the head of refining operations that is not interested in the economics of cost.

THE CHAIRMAN: Well, apparently he is not an executive and does not have to concern himself with costs. As I understand it, Mr. Woolley, your job is to see that you do a first-class job of refining?

A That is it.

Q In the various refineries?

A Yes.

Q And there you begin and end?

A I begin after the crude is delivered at the refinery.

Q MR. PLOTKINS: Well, this map, Mr . Woolley, which you have introduced to this Commission, concerns itself with markets mainly, crude production and markets of refined products?

A Mr. Plotkins, that map was prepared beginning with a base, with a field price of crude, taken to our refineries and the refined products taken out to the markets and that is all.

Q True?

A They are based on estimates of our requirements.

Q But they reflect in refining conditions or refining costs the economics of production and marketing?

A Not ecomomics of production at all. There is nothing in there about the economics of production, only the economics of manufacturing and distribution.

Q Well, are not those lines drawn, based on costs of crude reflected in efficient production?

A Yes, the cost of crude at the well.

Q So you had to take somebody else's word for that?

A For the cost of production, yes.

Q For the cost of crude?

A Yes, for the cost of production. I have no knowledge of that, they are based on posted prices.

Q Well, then, on the other hand, you have to weigh those costs to establish your lines accurately, to the best of your knowledge, in the light of cost of transporting refined products?

A Yes.

Q And that was something else you had to go and find out from someone?

A Yes, yes.

Q So why should they send you, a refiner, here.....

THE CHAIRMAN: That is something that is left to us.

MR. PLOTKINS: It is hard for me to understand.

THE CHAIRMAN: Quite so, but the fact remains that Mr. Woolley is here and you cannot force him to give information of something which he does not know. anything about. Now, perhaps, it would have been the part of wisdom for the British American to bring someone who has a wider knowledge, but they have not, so let us get down to this witness and do not ask him questions about something he does not know anything about.

MR. HARVIE: I think, Mr. Chairman, we have produced a witness who has given very completely the information we were asked to give on very short notice.

THE CHAIRMAN: Oh, quite so. We are not complaining about Mr. Woolley. We just say he has his limitations to speak for your company and he has himself expressed those limitations and there is no use of pursuing them beyond what he knows about, because the answers are of no value and the questions take time, but, Mr. Plotkins, you can ask him about anything he knows about.

Q MR. PLOTKINS: Do you, in your refining department, determine the question of shipping finished products from the east, when the economics actually warrant?

A No, the accounting department does that.

Q The accounting department does that?

A The accounting department takes into consideration the whole thing of transportation, costs of products, transportation, manufacturing costs.

Q Would not the accounting department in turn be influenced by the management, so as to weigh not only the economics of any other factor which may be.....

A Would not the accounting department be influenced.....

Q Would not the accounting department be guided or would ask if there are any other factors to be weighed besides accounting and economics, of the management, before they would issue orders to your department to ship refined products into the Manitoba area?

A Would there be, you are asking me, would there by any other influences, any other.....

Q Factors?

A Factors outside, that would establish that line besides strictly the economics of it?

THE CHAIRMAN: We will take it for granted, Mr. Woolley, whether you say so or not, that the exact policy of the company will be determined by the executive and not by yourself?

A That is right.

Q MR. PLOTKINS: On Friday we were given the names of the subsidiaries of the British American Oil Company, are any other companies, are there any other companies which your company owns in part or controls also to be put into the record, such as service station Equipment Company, John Wood Company.....

A I would not know anything about that, Mr. Plotkins, I do not think they are but I do not know.

Q The British American Producing Company maintains a permanent office and staff in Shelby, Montana, you know that?

A Yes, I understand they do.

Q You are not in direct relation with them?

A No, sir.

Q Were you when you were shipping crude from Cutbank into Alberta into your Alberta refineries?

A Through our production department, yes, they have an office at Shelby.

Q At that time you were in relation with them?

A Yes.

Q So that you know from the extent of your operations, what the conditions are or were in Montana?

A Not the conditions in the field. I know the conditions at the refinery.

Q You would say on the Conservation Board's reports, that, the Montana Conservation Board's report, 1936, Cutbank

produced, by the way, I am going to file an Exhibit in that respect, the 1936, 1937 and 1938 production and shipments to Canada in percentages, and that will paint the picture, Mr. Frawley, will you put that in?

MR. NOLAN: Who prepared this?

MR. FRAWLEY: The Montana Conservation Board.

THE CHAIRMAN: This is being produced?

MR. FRAWLEY: A statement prepared by the Oil Conservation Board of the State of Montana, this is a statement of crude oil production, refining, storage, etc. in Montana, for the year 1936, Oil Conservation Board of the State of Montana. I offer this.

MR. HARVIE: Through this witness?

MR. FRAWLEY: I take it Mr. Plotkins is offering it and asking the Commission to accept it. I do not think it has anything to do with Mr. Woolley.

THE CHAIRMAN: Is there any dispute about it?

MR. HARVIE: I do not know anything about it and I do not know whether Mr. Woolley does either.

THE CHAIRMAN: Well, do you know anything about it?

A I do not know anything about it.

THE CHAIRMAN: You can go on the witness stand yourself and put it in as a witness, Mr. Plotkins.

MR. PLOTKINS: Right now?

THE CHAIRMAN: Yes, if you want to ask questions about it.

.....

LEON L. PLOTKINS, having been recalled, examined by Mr. Frawley, said:

Q MR. FRAWLEY: Produce them and say what they are.

Q THE CHAIRMAN: You are still under oath, Mr. Plotkins?

A Yes, Mr. Chairman.

Q All right.

A I am producing a printed statement of the crude oil production, refining, storage, etc. in Montana for the year 1936, issued by the Oil Conservation Board of the State of Montana.

(DOCUMENT PRODUCED HERE MARKED AS EXHIBIT "167".)

WITNESS: Let me see it, yes, I guess they are both necessary.

Q MR. FRAWLEY: There are two sheets to Exhibit "167".

A Because one is different, it gives a comparison which the year 1936 does not.

Q What does it purport to be?

A It purports to be a statement of crude oil production, storage, refining, etc. for the year 1938.

Q Issued by?

A Issued by the Oil Conservation Board of the State of Montana, and then the statement of crude oil production, refining, storage, etc. in Montana, comparison of the year 1938 with the year 1937, issued by the Oil Conservation Board of the State of Montana, showing not only production but shipments to Canada in relation to the whole, I have one for 1937 also.

(DOCUMENT REFERRING TO 1938 HERE MARKED AS EXHIBIT "168".)

WITNESS: I cannot lay my hand on it, you will have to accept the statements shown on the 1938 statement, showing the 1937 figures.

THE CHAIRMAN: Then you want to ask more questions about it, Mr. Plotkins?

MR. PLOTKINS: Yes.

THE CHAIRMAN: Now, do not spend time asking about this if the witness says he does not know anything about it.

MR. PLOTKINS: I am going to ask him in view of these statements if these conditions, what would he say that the conditions are to be so far as his company is concerned, so far as refining in Calgary and Regina is concerned.

THE CHAIRMAN: All right.

.....

LeROY EDWARD WOOLLEY. having been recalled, examined by Mr. Plotkins, said:

Q MR. PLOTKINS: You would know at least, we can establish it,.....

THE CHAIRMAN: Just refer him to whatever you want.

Q MR. PLOTKINS: I show you the statement for 1936, Exhibit "167", you will find there that the Conservation Board reports the total production for that field of 3,332,440 barrels for Cutbank field, Cutbank field, total production produced during the year 1936, this figure?

A Yes.

Q And you will see the shipments to Canada there for the Cutbank field?

A Yes.

Q As 2,720,467 barrels, were shipped to Western Canada, that is the correct figure, is it not?

A Shipped to where?

Q Shipped to Western Canada?

A To Canada, it says here, where does it say, Western Canada?

Q To Canada?

A Yes.

Q You have no knowledge of any Montana crude going further than Western Canada?

A No, I thought there was another figure here.

Q Beg pardon?

A I thought probably there was another figure you were referring to, this is the one you mean here?

Q Yes?

A 2,720,467.

Q Shipped to Canada, that is the official statement of the amount which was shipped?

A Yes.

Q That represents 82% of the total production, I suppose you will accept my word for that?

A All right.

Q Roughly 82% or an average of 7,453 barrels out of a total of 9,130 barrels daily production for the Cutbank field, were shipped to Western Canada?

MAJOR LIPSETT: Have you that figure right, is it nine thousand?

MR. PLOTKINS: 9,130 is the average daily production based on 3,332,440 barrels.

A He is telling us that, it is not on here.

Q In the 1937 and 1938 statements, the 1937 and 1938 statement shows the daily production but this one is not quite as complete, in 1937?

A You have the 1937 statement there?

THE CHAIRMAN: Point out the figures you want to refer the witness to and let us get on to what you really want to ask him.

Q 1937 there is the Cutbank production, the daily average, and there are the shipments to Canada, the total and the daily average?

A Yes.

Q For 1937, and them you have 1938 on top, and I will ask you about that?

A Yes.

Q In 1937 the Cutbank field produced 3,367,482 barrels?

A Yes.

Q Of which 1,696,135 barrels were shipped to Western Canada?

A That is right.

Q Or about 50% of the total production or an average of.....

MR. HARVIE: Let him answer.

Q MR. PLOTKINS: Is that right?

A That is right.

Q Or an average of 4,647 barrels out of a total off 9,226 barrels daily production, were shipped to Canada, those are the figures there?

A Yes, that is right, in 1938.

Q THE CHAIRMAN: 4600 or 46,000?

A 4600.

Q MR. PLOTKINS: In 1938 the Cutbank field produced 2,830,551 barrels?

A That is right.

Q Of which 221,049 were shipped to Canada, that is quite a big reduction, 221,049 were shipped to Western Canada?

A Yes.

Q Or 605 barrels daily,, or representing less than 8% of the total production?

A That is right.

Q Now, you would know through your Calgary office that the Cutbank producers have replaced the last of the markets and are now taking care of 92%, as the figures would indicate, of their 1938 production, they have erected their own refineries and done their own marketing, and that difference between 1937 and 1938 production, roughly is 537,000 barrels, will be more than absorbed by the New Glacier Production Company.

MR. HARVIE: Is this a statement?

MR. PLOTKINS: I am going to ask him a question in view of those facts, so is it possible to bring in any quantity of crude from Cutbank?

A Well, Mr. Plotkins, I don't know anything about the field, the extent of it, or anything at all about that, and to build up the conditions in the States and still ask me, if that crude is still available here, I am not in a position to answer that.

Q Well, in the abstract, you are in a position to answer it?

A No, I do not know anything about the Montana field or the refining business over in Montana or in the States.

MR. FRAWLEY: And you do not expect any importations in 1939 from Montana to Western Canada?

MR. HARVIE: To his company.

A To my company.

Q Yes?

A We have not considered any, I have answered that.

Q MR. FRAWLEY: Yes, long ago.

Q MR. PLOTKINS: Do you know if you have sold all of your pipeline facilities or part of them?

A That we have sold it?

Q Yes?

A I do not know.

Q Well, have you any information on that?

A No, I have no information on production or pipeline transportation in the States, I do not know anything about it.

Q If I suggest to you that that is one of the reasons why your company do not consider the importation of Cutbank crude into the Regina refinery?

A I would not answer you.

Q You would not know?

A I would not know.

Q Here is something you might be able to tell us, if the necessity arose to again operate the Coutts refinery, you would offer no objection, your refinery department, to refining on a customs basis for the Imperial Oil as well as for yourselves at Coutts?

MR. HARVIE: The evidence is that he is dismantling the Coutts refinery.

Q MR. PLOTKINS: Dismantling, is this your evidence, Mr. Woolley?

MR. HARVIE: That was his evidence.

A Yes, we are dismantling the refinery.

Q Would you qualify that so that the Commission will be in a position to know what exactly is the position at Coutts, because it may affect the amount of crude which is going to be shipped out of Turner Valley through this pipeline, is it not a fact that you have only dismantled the cracking units?

A No, we have taken some parts of the plant out, there are

some parts of the cracking plant and some parts of the tankage, some of the tankage, some lines, anything that we have had use for we have taken out of there.

Q Well, can you say definitely?

A That plant has been under the process of dismantling since last Summer.

Q Would you say that at the present time if your company found itself in a position this Fall where there was a big crop and the facilities were such that you anticipated trouble in supplying the market, that your company would not be in a position to make a minor addition to the Coutts refinery and operate it as a topping plant?

A Yes, it could be very easily operated as a topping plant to-day.

(Page 4307 follows.)

Q And the procedure from the refining standpoint would be to top the natural products and ship the bottoms to your Calgary refinery for further processing?

A That may be done.

Q Is not that what you have been doing in respect of your Calgary Bell Refinery operations?

A Calgary Bell Refinery operations?

Q Yes?

A Shipping to Calgary?

Q No, topping in the Calgary Bell Refinery and shipping the bottoms or the reduced crude to your Moose Jaw refinery?

A That is right.

Q So the same thing is economically sound to do from Coutts, if you operate your Coutts plant as a topping plant?

A If the emergency arises, the occasion arises, yes, you could do that. It has been done. We did it last year, if that is what you are asking.

Q So your Coutts Refinery is capable of topping how many barrels of crude daily?

A None at all today. We could build it up to anything we wanted to.

Q I mean the present capacity, just adding the lines and a few tanks you may have taken away?

A 3500 barrels a day.

Q So that you could supply your market and the Imperial market in the Southern end of the Province with topped products from your Coutts topping plant, and affect not only the Southern Alberta market, but the Regina market and the Manitoba market by shipping approximately 60% of that 3500 barrels that you would reduce in your Coutts

plant to the other markets?

A Yes.

Q And to that extent you could reduce - your Company as a matter of policy could reduce to the extent of 3500 barrels the amount of crude that would come out of Turner Valley through this pipe line?

A Well if we should do that, yes it would.

Q That is all I want. That is within your province to answer these questions?

A Yes.

Q Was such an arrangement carried out with the Imperial Oil in the Fall of 1938 with respect to the operations at Coutts?

A No.

Q You refined for yourselves only?

A That is right.

Q You will agree that would be one other method of reducing the amount of crude that would be taken out of the Turner Valley field if you operated your Coutts refinery, if you saw fit to do so?

A Yes, that would be one way if we saw fit.

THE CHAIRMAN: As I understand the witness he does not anticipate that will be done, however.

Q You do not anticipate that will be done?

A No, we do not.

Q MR. PLOTKINS: That is not within your Province to decide is it?

A Yes, it is possible to do it.

Q I mean is it within your province as General Refining Superintendent?

A To decide whether it would be done or not?

Q Yes?

A No, not within my province. It is a matter of the policy of the company, something that would have to be worked out.

Q Coming back to your map, what method of calculation did you use in determining the comparative values between East Texas and Turner Valley crude for your map figures?

A Comparative values?

Q Yes? What weights did you give to the different factors?

A We gave the posted price for a barrel of each kind of crude and each and every operation.

Q You took into consideration the freight, the laid down cost of each barrel of crude?

A Yes, certainly.

Q But when it came to determining the marketing lines - as far as crude was concerned, you were on solid ground. You say in effect through your map, crude is worth in East Texas so much and it costs so much to lay it down in Toronto. Crude is worth so much in Turner Valley and costs so much to lay it down in Moose Jaw. So far we are on solid ground. But when it comes to determining the lines on that map as to marketing areas, I have assumed you have used the refined products' market areas as a basis for your shipment?

A Most certainly.

Q When you come to that what basis did you use?

A When you come to what?

Q Came to determining the areas into which you could ship your refined products. We are no longer concerned with crude or crude prices We are now concerned with the

economics of the distributing refined products from your Moose Jaw refinery and from your Toronto refinery. What were the factors that you used?

A All factors are taken into consideration, Mr. Plotkins, in arriving at the dividing line between the two shipments. You start with your crude in Turner Valley and transport it to your refinery, manufacture your products and ship it to the East.

Q Manufacture your products and ship it to the East?

A All these factors are taken into consideration. The quality of the crude, your yields and your costs and everything. It is all based on a cost basis and the dividing line between the two comes at this point in Manitoba.

Q So that you say in effect you have taken the yields and the prices in order to weigh the dividing point?

A That is right, yes.

Q Between the East and West?

A Yes.

Q You tell us then that your map is based not only on the economics of crude oil and refining, but on prices?

A Of transportation. Not of prices. Price has got nothing to do with it. You are talking about market prices now. It has not anything to do with it.

Q Well all I am asking.....

A No, that has not anything to do with it.

Q Your market price, in other words the reigning price prevailing in any one point in that territory has no effect whatever on determining the dividing line?

A No sir.

Q All you are concerned with is transportation costs on your

refined products?

A No, all we are concerned with is the cost of crude, the transportation and your refining costs.

Q But once you have assumed you can use so much Turner Valley in your Moose Jaw Refinery, and on the other side, Toronto, you have so much you are going to buy so much crude to supply so much market?

A Yes.

Q In order to determine accurately and base your knowledge on hos far and to what point each refinery will ship you then have to reduce the cost of bringing a barrel of crude down to that point and you have added the cost of refining and the cost of transportation to a particular point and weighed one against the other?

A Yes.

Q And the problems of crude oil values insofar as they affect the B.A. Oil as against Imperial Oil operations in Regina would not necessarily be the same?

A No, I would not say so.

Q Because the factors of yields and markets?

A Yes.

Q Would affect each position?

A Their line would not necessarily come to where ours does.

Q We come to a point where you say crude is worth $1.30 for Moose Jaw?

A No, I did not think it was worth that. I said that is what we are paying for it.

Q I know, but that is what you say in effect when you buy it at that and transport it and you weigh one against the other?

A Yes.

Q What I am trying to bring out and ask you to give us the benefit of your knowledge is this, when you decide the amount of crude that you will buy in Turner Valley as against the amount of crude that you will buy in East Texas, you have taken into consideration the factors of costs and refining and shipping that are not on the same scale or the same factors as what the Imperial would use?

A That is right.

Q That is right?

A Yes sir.

Q So that you might find yourself in conflict as to the value of the crude to you, for your total West Canadian operations?

A I say it is not the value. Our line is not based on the value of crude. That has nothing to do with it. It is based on what we have to pay for crude.

Q You say so far as your refining department is concerned it has not anything to do with it?

A That is what I hope you are talking of, the cost of crude, the cost through the refinery.

Q I was going to ask you whether or not these other factors have not to be weighed by your Company when they finally agree with the Imperial Oil for a certain price?

A I never said anything like that.

Q I did not say you did. But these maps of yours have to be read with those factors in mind.

MR.HARVIE: They do not have to be read with any Imperial Oil figures.

Q MR. PLOTKINS: Put it another way. You say we can buy so much crude oil in Turner Valley. You

say the reason we can buy so much crude oil in Turner Valley, and we won't buy that oil in Turner Valley but will buy that amount in East Texas instead of Turner Valley is because our conditions, the B.A., conditions of refining and through put and volume which affects your costs in the Moose Jaw refinery as against the Imperial, which may be processes three or four times as much, and would have a lower cost of production, and also in the light of the markets you might have in certain districts that the Imperial might not have, so that your cost to ship to your market would be different, in other words your refinery costs may be lower or higher and your marketing cost may be lower or higher, but when the question of the pipe line price has to be set in Turner Valley do you say that your company is not interested in the pipe line price but just merely acquiesces to the Imperial price? Just tickled to death to follow?

A I said we are interested in the pipe line price as long as it is a fair price, a reasonable price.

Q You have something to say about whether it is or not?

A We are not financially interested in it. It won't change our costs any.

Q No, but you say as long as it is a fair price. Well now, you are one that is going to determine whether it is a fair price or not, not the Imperial, insofar as your operations are concerned.

MR. HARVIE: I think the Commission are going to do that?

A Yes, I was going to suggest that was what they are determining on here. We are not determining it, I mean the British American.

MR. PLOTKINS: Now in order to make these maps you have based yourself on the 1938 operations. If in 1938 the situation arose where the Imperial said "We are going to post $1.50 price instead of $1.30", would your company follow, or would it not make attempts to make representations to the Imperial to consider your position?

A I do not know anything about that. That has nothing to do with the refinery.

Q It has something to do with arriving at the figures on that map?

A You are trying to get back to setting the price of crude, a thing which I know nothing about. In making that map I started out with the posted price in Turner Valley and East Texas, and set up an economic dividing line between the two crudes in the two fields. I have not attempted to explain the cost of crude or the cost of producing crude or the cost of transporting it through a pipe line or anything like that. It is just the prices what we are paying for the products we are using.

Q But you have attempted to show to this Commission the economic dividing line for the shipment of refined products?

A Yes, I have attempted - I have done that and we are giving you the details of the calculation to show how that is arrived at.

Q The details of the calculation. Where are they?

MR. FRAILEY: This man did not do them.

A If you are trying to find whether that is in the right place or not, I cannot do that,

Q MR. PLOTKINS: I am trying to determine

whether your market calculations accurately reflect all the factors?

A All the factors? Yes, it does. They are all taken into consideration in setting that.

Q That is what you say are all the factors, but I may discover other factors?

A You may discover them.

MR. FRAWLEY: They are not here.

Q MR. PLOTKINS: These figures that you are going to give us so as to check the accuracy of these dividing lines, are they going to include the products that you manufacture from that amount of crude and the costs, average or otherwise, of the transporting of the refined products to the various markets?

A I imagine all the factors will be in that calculation.

Q But you do agree that the final results of a barrel of Turner Valley crude in your Moose Jaw refinery, in economic value to your company, are not necessarily the same as the final results of a barrel of crude to the Imperial Oil in their Regina refinery?

A No. They would not necessarily be the same because you have two varying factors in there. One is the difference in transportation. The distance Moose Jaw is closer to Calgary than is Regina. There is a difference in freight, a slight difference?

A Yes.

A And two different refineries, of course, never operate exactly the same. Your costs would differ.

Q The costs are different due to different sizes?

A That is another factor that is to be taken into

L.E.Woolley.

consideration.

Q So if the Imperial had a lower cost they could reach further East?

A Not necessarily because they might have a lower cost at the other end too, to balance that.

Q They might have a lower cost at the other end too? Yes, that is true. You say that your company makes no attempt to equalize these differences in values insofar as Turner Valley crude is concerned, that we have just gone into?

A That our company makes no attempt? I do not know whether they make an attempt or not.

Q You do not know?

A No, I do not know whether they made an attempt.

Q What would you say the advantage is that would be derived by the B.A. Company in purchasing its requirements at the prevailing posted field prices for Turner Valley crude and supplying that crude to the Imperial for custom refining instead of you allowing the Imperial to supply you this crude. What advantage would there be?

A No advantage.

Q No advantage?

A I do not see it.

Q Well what would be the reason for them doing it in that particular way?

MR.HARVIE: Is there any evidence that they have, any suggestion that they have?

Q MR. PLOTKIN: No. I am wanting to find out the reason. There is a reason.

A Maybe I do not understand what you are talking about.

Q Well the British American, your company?

A Yes.

Q Your refining division could have just as well gone to the Imperial and said "Now we want so much products for our Calgary territory and you sell us the crude at the same price as we could buy it for, namely the pipe line price, the posted field price, and charge us so much for refining a barrel and we will take the product." They could have done that just as well as you going out in the Valley and making commitments and investing money and done a lot of things in Turner Valley in order to get some crude to supply the Imperial, which already had the crude?

A I suppose there are dozens of things that we might have done. I do not know why they were not all done instead of this one.

Q You do not know the reason for that particular technique?

A No.

Q That is all, thank you.

THE CHAIRMAN: Any more questions?

Q MR. FRAWLEY: Your Company is now paying the posted field price in Turner Valley for crude oil?

A Yes.

Q They are paying $1.20 for 43.0° to 43.9° gravity?

A I think that is correct.

Q That is the posted field price?

A Yes.

Q Now what you are saying in answer to Mr. Plotkins is that it may be that particular crude when you get it to Moose Jaw is of greater value to you than the same crude is to the Imperial at its Regina Refinery?

A No, I said it may or it may not be, because of two varying

factors.

Q It may or it may not be?

A Yes.

Q If it should be determined it were of greater value to you and you could do more with it, due to a little better refining technique or whatever the reason may be, is it fair to suggest or quite impractical to suggest to you that you should pay more for it at the well head in Turner Valley?

A No, I do not see that has anything to do with it, Mr. Frawley. My point is this, that in moving the crude from Turner Valley through to Moose Jaw, refining there and setting our dividing line, balancing that off with East Texas, we get a line at a certain place. Now the Imperial Oil has got a different calculation entirely. They have different freight rates to Regina, a different refinery in which the products are made, and they are balancing theirs with a calculation at Sarnia, shipments from Sarnia. So that the dividing line may not necessarily come to the same place.

Q I am not talking at the moment about that. Let us forget about moving your Illihois crude or moving the East Texas crude into Western Canada. Let us go back say a couple of years. I am talking about the posted price in Turner Valley. The Imperial posts it?

A Yes.

Q The Imperial has posted this price?

A Yes.

Q And your Company simply follows suit?

A Yes.

Q I say if you will assume with me that that crude you buy

for $1.20 - that the Imperial posts- and you take it over to Moose Jaw?

A Let us assume we do.

Q Yes. You take it to Moose Jaw and you have a certain market to ship it to through your refinery operation which is such and such. You move it West a little bit from Moose Jaw and East a little bit from Moose Jaw, and have what is normally the Moose Jaw territory?

A Yes.

Q The Imperial moves its crude to Regina and it ships some West, backs up some of it, the refined products, and some go East and they have a normal Regina territory?

A Yes.

Q Assuming you have better operation than they have, and the value of that crude - after Mr. Bronsdon has worked it out in his Toronto office, is worth more to you than a comparable figure of the Imperial Oil. Assume that. Now is there any reason at all why you should pay more for it - that is all I say, at the well?

A No, I do not see why.

Q It is of greater value to you, on my assumption, than it is to the Imperial Oil? That is no reason why you should fail to take advantage of the Imperial Oil price?

A I do not see why it should be of greater value.

Q I say assuming it was of greater value to you?

A Assuming it is of greater value.

Q Yes?

A Yes.

Q Now is there any reason why you should do anything except follow the posted price?

A If it is of greater value to us, then you could also

assume that we might pay more for it.

Q Why should you - why in the world pay more for it?

A No. Well I say you are assuming all these things.

Q I am assuming it is of greater value to you than to the Imperial Why should you pay any more for it?

A No, there is no reason.

Q None at all. You put this in your pocket?

A Yes, certainly.

Q I am endeavouring to get at this question of whether anywhere in the world different refineries do anything with this daily posted price?

A Well they sometimes buy at lower prices and sometimes they pay a premium.

Q Do they sometimes go out and say to the producer - would it be an unthinkable thing that the British American should go out to the producers and say " Well we are going to pay you more. We are going to post a new price."

A No, we do not do that only when there is a shortage of crude.

Q Just when there is a shortage of crude?

A Yes.

Q But in case you have a more profitable refining operation?

A No.

Q You never do it on that account?

A Only because there is a shortage of crude.

Q If the Imperial has given you a umbrella you are glad to be under it?

A That is right.

THE CHAIRMAN: Any questions Mr. Nolan?

MR.NOLAN: No, my Lord.

THE CHAIRMAN: Mr. Kolb?

Q MR. KOLB: Has it ever been discussed by your company or your company in conjunction with the Imperial.....

THE CHAIRMAN: I do not hear you very well.

Q MR.KOLB: Has it ever been discussed by your Company, or your Company in conjunction with the Imperial that the Railways might not be beyond considering a reduction in the existing freight rates eastward from Regina to Winnipeg, in which event this picture then might be somewhat changed?

A I have not heard any discussions on it.

Q It will probably be news to you that the evidence given by Mr. McGrath, he repeatedly referred to what the producers would have to do with reference to a cut in Turner Valley posted price. Before such a definite opinion is confirmed by you would it not be reasonable to assume that the Western major refining companies and the producers might best serve their combined interests by saying to the railways "We need your help in keeping the imported oil out of the Western Canadian market, the natural outlet for the Turner Valley crude," and suggest that the freight rates be reduced on crude and finished products sufficiently so that from Regina East to Winnipeg it will be at least possible to lay down Turner Valley crude to equal the cost of Illinois or Mid-Continent in Manitoba. In other words not just single out the Alberta producers to take the loss until other avenues of relief might have been fully gone into.

THE CHAIRMAN: That probably is long

enough for one question.

A You are asking me, as I understand it,now, whether I considered whether it would be good policy for the producers and the refiners to ask the railroads to do that?

Q Mr. KOLB: Correct.

A I do not know. I had not given that thought until you brought the question up. I have not heard any discussion about it. I did not read Mr. McGrath's evidence. I do not know anything about the discussion that was going on.

Q I mentioned the possibilities of the railways'assistance for the reason that when Sir Edward Beatty was last in Calgary he said to a committee of the Producers' Association "The railways of this country will not be guilty of making the same mistake of the railways in the United States by refusing to instal, if possible, economical rates for the movement of oil in an endeavour to keep the pipe lines from being necessary." I do not know whether you knew that or not?

A No, I did not.

Q That is why I am trying to connect the railways in with the refiners and producers?

A Yes, I see.

Q Then do you agree it would be unreasonable to assume that when the Illinois and Mid-Continent threat is properly explained to the railways by the Western refiners and the producers, that the railways would not make every effort to establish a proper rate, - Regina to the Manitoba points, if for no other reason other than to discourage the thought of a pipe line being thrown across the Prairies

and thereby taking away forever in the West from the railway the tremendous oil haulage. That would be reasonable, I presume, would it not, to assume that the railways would give us every consideration?

A I think that would be something for the railroads to consider, yes.

Q And the refineries and producers?

A Yes sir.

Q They are all in the same position?

A Yes sir.

Q It would be a fact that the pipe line would create a permanent loss of revenue to them and to the Canadian people as well as making good the suggestion in the past to co-operate with the producers in the matter of transporting their products to the advantage of all concerned. That is the reason I am bringing this up. I happen to know that they do want to work in harmony with us all. At the same time we are overlooking one point, when discussing cuts, that the producer is perhaps not the only one of us that are connected with the sale of oil and the production of oil that may be concerned in a cut. Do you not think that the railways are awake to the fact that if a pipe line were built across the prairies to Winnipeg that the transportation rates on a barrel of oil at Manitoba points could be much less than the existing Calgary to Manitoba freight rate? Do you think they are familiar with the fact there is a big reduction in pipe line transportation as compared to freight rates?

A Well there always is. It is cheaper. I do not know whether - they must be aware of that.

Q You do not think it is necessary for us to remind them of that fact, because they know. They had it in the States. Don't you think we should.....

A Well I do not know. YOu have been thinking about this. This is a suggestion you are putting to me and asking me whether I agree with your suggestion.

Q No, I particularly want to bring this question out, I do not know whether it has been discussed or not?

A I have not heard anything about it, no. I have not heard a thing about it. I have not given it a thought.

Q Then do you not think if the railways did give consideration to the extansion of the existing special rates, Calgary to Regina, and applying a comparable low tariff from Regina to Manitoba, that sufficient reduction would be made to permit the entire prairie market being retained for the Alberta producers, which would mean retaining the existing posted prices? If we could get them to give that consideration?

A You are asking me if I think we could get them to give consideration?

Q Yes?

A I do not know, I am not in a position to know.

Q Well you think before any statement is made by the refiners that the producers must take a cut in order to retain the existing field prices that some weight might be given to a get-together of us all. Do you now think that might work? In other words, we have points to bring it to their attention the fact of the pipe line being a possibility.....

A You are asking if, before we change our assignments or anything like that, that consideration be given to

the freight.....

Q The railways are a part of our business?

A Yes, I think that should be done.

Q THE CHAIRMAN: As I understand what you are saying, Mr. Kolb, is a reduction in railway freight rates would permit of the Turner Valley oil going further East?

A That is if they would give a low rate going East and a high rate coming West, that is the onby way you could change that. If they would do such a thing as that.

Q MR. KOLB: The thought of putting in pipe line transportation from Winnipeg to Fort William is quite different than putting in pipe line transportation from here to Winnipeg. There are points all along the road to distribute.

A As I understand it your proposition is to request the railroads to change their rates from Regina, railway rates on finished products?

Q Yes?

A Is that right?

Q Yes, that is right?

A Going East, to change the rates, lower the rates going East and keep them high coming West.

Q That is right?

A So that you will set your line back?

Q That is right?

A Well I do not know.

Q Is it not worth us all considering?

A I really do not know anything about the transportation problems of whether they would do such a thing as that

or not.

Q MR.COMMISSIONER LIPSETT: Have you, Mr. Woolley, given any consideration at all to the question of how much of a reduction would be necessary to put your "A" line either to the East of Winnipeg or down to Fort William? I mean you fix it at the present "A" line? You fix that on the basis of the present freight rates, I take it?

A May I have a look at that map again?

Q Yes?

A Well it is pretty hard to say. No, I have not given that consideration,. to answer your question now. It could be figured out quite easily.

Q And I wondered if, without putting you to perhaps a little beyond our Inquiry, but it would stabilize the pipe line through put if it were possible to get this Turner Valley refined product down say to the Ontario boundary?

A Yes.

Q Or even further East if that was possible?

A Yes.

Q And with your practical knowledge you might possibly be able to give us an estimate of what would be necessary in a reduction, either in freight rates or in crude oil or in the pipe line - they might all contribute possibly a little - to send Turner Valley crude further East?

A What you want to know is what reduction would have to come here to meet, we will say, Eastern crude, Illinois or East Texas crude at the Ontario boundary?

Q Something like that?

A I can have calculations of that kind made out.

Q If it was not too much trouble?

A And give you an estimate of that.

Q It might be helpful to everybody.

THE CHAIRMAN: Yes, and when?

MR.HARVIE: I would be glad to have that done. I presume you would not wish to hold Mr. Woolley here while that is being done. We will file it afterwards. That will have to be done in Toronto?

A Yes. It might take a week or longer. I do not know how long it would take.

Q Are you capable of doing that here with the information I have?

A If you want a rough estimate we might get it in a short time, but if you want a careful calculation.

Q It will have to be done in the Toronto office?

A Yes.

MR. HARVIE: I am asked to have that supplied, is that right?

THE CHAIRMAN: Well there is the question of time. We are not going to delay this thing indefinitely.

MR.HARVIE: Mr. Woolley says a rough estimate can be made reasonably quickly, but an accurate estimate it would take a week or so.

THE CHAIRMAN: Well we will take it rough.

Q MR. FRAWLEY: Mr. Woolley, we have heard of the freight rates on refined products moving from Fort William West to Winnipeg and from your Regina refinery East to Winnipeg?

A Yes.

Q I want to discuss with you the disadvantages in competition of keeping this Winnipeg market. Your map is based on what you move by water to Fort William and by railway to Winnipeg?

A Yes sir.

Q Your refined products would move from Moose Jaw to Winnipeg - that is for the movement of Turner Valley?

A Yes.

Q Now do you know that the - take it from me that it is Mr. Woolley - that the freight rate from Moose Jaw to Winnipeg is 60 cents a 100 pounds on finished goods?

A Yes sir.

Q And that is 398 miles?

A 398 miles. Are you building up a calculation here?

Q No, you can follow a few simple figures.

THE CHAIRMAN: Is somebody going to prove this?

MR. FRAWLEY: Yes, we will put in these freight rates.

THE CHAIRMAN: All right.

MR. FRAWLEY: The mileage from Moose Jaw to Winnipeg is 398 miles, and the freight rate on finished products is 60 cents a hundred?

A Yes sir.

Q The mileage from Fort William to Winnipeg is 434 miles?

A Yes.

Q And the freight rate on finished goods is 50 cents?

A 50 cents?

Q 50 cents?

A Yes sir.

MR. COMMISSIONER LIPSETT: What is the mileage?

MR. FRAWLEY: 434 miles. In other words if you will follow this percentage calculation, 92% mileage for 20% more freight. That is about right is it? The Moose Jaw to Winnipeg mileage is 92% of the other, and the additional freight that you pay is 20%. In other words, you run 92% of the mileage and you pay 20% more freight?

A Yes, I see that works out that way, and your suggestion is that they should equalize.

Q If the freight rate were equalized, if Moose Jaw to Winnipeg was the same as Fort William to Winnipeg, that would be 46 cents?

A Oh yes.

Q Instead of 60 cents that you are now paying?

A Yes.

Q Now the importance of that I call your attention to is this, that this is the particular freight rate which you would invoke and which it would be your privilege to invoke to get this Texas made gasoline into Winnipeg?

A Yes, I see.

Q That is the immediate importance of it to Mr. Kolb and his people?

A Yes, I get his point now. I understand.

Q Now you did say to me, at least you said to somebody, you had given no thought to the question of a better freight rate on finished goods?

A No.

THE CHAIRMAN: While we are at that subject, are we not concerned with how we get to Fort

William? Boats do not run for nothing. What about that?

Q MR. FRAWLEY: Do you know, Mr. Woolley? Let me add that to the calculation. I can give you - subject to proving it - I can give you the cargo rates on Sarnia to Fort William. Yours has to move from Toronto. Do you know, as a matter of fact, whether there is a great deal of difference between the cargo rates from Toronto to Fort William and from Sarnia to Fort William?

A It would be more but what it is I do not know.

Q How do you ship? How does the British American get its finished goods from Toronto to Fort William?

A From Montreal and the Toronto refineries.

Q Yes, I know, but what kind of boats, whose boats?

A Our own boats.

Q The Britamoil and Britamolene?

A Yes sir.

Q And if I put it to you that the cost - the Imperial Oil does the same thing?

A Yes.

Q I put it to you that the cost per 100 - I know the cost from Sarnia to Fort William is 5 cents a 100, and your cost you think might be a shade more?

A Well it would be. In fact it would be quite a bit more because we ship from Montreal right through.

Q You ship from Montreal to Fort William?

A Yes, we ship from Montreal right through to Fort William. Some of it goes from Toronto.

Q THE CHAIRMAN: All that has been taken into account in making these maps?

L.E.Woolley.

A Yes sir.

A MR. COMMISSIONER LIPSETT: Have you any knowledge, Mr. Woolley, as to whether it has ever been taken up with the railways, this apparent discrepancy or discrimination?

A No, I do not know that it has. I do not know whether it has been taken up with them or not.

Q It seems quite a serious thing in considering the distance East that Turner Valley can go?

A Yes. There is a good reason for making the request which has been suggested, yes sir.

Q On the surface it looks as if there was a very good reason?

A Yes.

MR. FRAWLEY: I did not get the question you asked the witness.

MR. COMMISSIONER LIPSETT: Mr. Woolley says that on the figures you show that there is a good reason for making a request to the railways with respect to this apparent discrepancy as between the East and Western freight rates.

MR. FRAWLEY: That is why I put it to Mr. Woolley. He is not the whole British American Oil Company, but I put it to you that your company as it is the person shipping and receiving the goods - and I may tell you that the Railway Companies seem to show a preference when they are dealing with the people who actually have the goods to ship and receive - that is in the negotiations I have had with them - I suggest it is very much worth the while of your Company, concerned in the movement of these goods, to ask the railways

companies to do something about this alleged discrimination in the rates.

THE CHAIRMAN: If you are going into this you should notify the Railway Companies.

MR. FRAWLEY: I did that, Mr. Chairman, this morning.

THE CHAIRMAN: They are entitled to be here.

MR. FRAWLEY: Yes.

THE CHAIRMAN: At the moment it looks like strange freight rate making. They should be here before this Commission is invited to come to any conclusions or make any observations concerning the freight rates.

MR. FRAWLEY: I asked Mr. Clapperton about it this morning. It is all my fault. He asked me when Mr.Cottle would be on and I told him this afternoon. But we have now gone into it with Mr. Woolley.

THE CHAIRMAN: You will have to go into it again.

MR. NOLAN: Mr.Clapperton is not the gentleman who is going to be heard from the Railroad Companies.

MR. FRAWLEY: No, but all I could do was to notify the Legal Department of the Railway Company and I felt that they would then look after matters for the Company.

MR. NOLAN: One would think they should be invited to take part.

L.E.Woolley.

MR. FRAWLEY: You mean the Railway Companies?

MR. NOLAN: Yes.

MR. FRAWLEY: I will invite them to come, but this Commission cannot do very much about the freight rate.

MR. NOLAN: Yes, they can do just as much about the freight rate as the pipe line rate. They can say exactly what they think about it.

MR. COMMISSIONER LIPSETT: It is important from the point of view of the through put of the pipe line.

MR. FRAWLEY: Oh yes, it is a very material thing to know.

THE CHAIRMAN: I hope we do not think of anything more. But this fact seems to be important.

MR. FRAWLEY: Then I should go to the Legal Departments of these Railway Companies because surely I can deal with the Legal Departments?

THE CHAIRMAN: I think, Mr. Frawley, you might invite a freight man to say why this is so.

MR. NOLAN: That is it exactly.

MR. FRAWLEY: I will bring a freight man from the C.P.R., as well as the solicitor from the C.P.R., and a freight man from the C.N.R. There are not any solicitors for the C.N.R.,in this part of the country.

MR. NOLAN: And then tell them they will be expected to tell why this is so after they have told you what the rate is.

THE CHAIRMAN: We have not the power

L.E.Woolley.

to fix the rate, and we have not the power to fix the pipe line rate either, but we are concerned with knowing why this seeming difference in the freight rates East and West.

MR. PLOTKINS: I would like to make a remark at this stage. The question of the rates on oil and finished products was gone into very thoroughly three or four years ago by the Board of Railway Commissioners, and at that time everything was weighed and the railway will just plainly answer "Well that is the rate imposed on us."

MR. COMMISSIONER LIPSETT: Three years ago, Mr. Plotkins, the question of crude oil in Turner Valley was not of much importance. It is very important today.

MR. PLOTKINS: At that time it was not Turner Valley. It was Montana as against East Texas and Mid-Continent, and the small refineries of which I happened to be one, demanding an adjustment of freight rates.

THE CHAIRMAN: Well the subject is thrown in. I think the Railways should be asked to make such representations as they may see fit, and have a freight man who goes into the witness box to say what he has to say about it. After all they are transporting and it is my memory that a Vice-president said it was the cheapest transportation in the world - he said that within the last month or so - for oil. That is my memory of what I read in one of the newspapers, which, of course, does not affect me here in the position we occupy. Perhaps it should be explored.

D.E.Woolley.

Now are there any more questions of this witnees?

MR. NOLANP There is just one question. Mr. Plotkins, in putting to this witness the question as to posted prices, I think said the Texas field. Well now there are many categories of fields. There is the Texas field. There is the West Central Texas; East Central Texas; Panhandle Texas; North East Texas; and West Texas, and there is also the East Texas field. The $1.10 is fixed in the East Texas field by the Gulf, Humble, Magnolia, Stanoline, Texas Company, Tidewater and associated companies. I would like the record to be clear on that, if that Exhibit "145" from which I read is accurate.

Q MR. FRAILEY: You are familiar with the Oil & Gas Journal?

A Yes sir.

Q This is the issue of February 2nd, 1939?

A Yes.

Q Before I read from it it should be marked.

OIL & GAS JOURNAL DATED FEBRUARY 2nd, m1939, is NOW MARKED AS EXHIBIT "169".

Q Page 98. Crude oil prices. Oklahoma, Kansas, North Central and East Central Texas. And them the first item under that is East Texas, October 11th, 1938, This is marked with an asterisk $1.10?

A Yes sir.

Q Now as far as this book is concerned, is that the price that you are talking about when you are speaking about crude?

A Yes.

L.E.Woolley.

Q The asterisk says "Humble Oil Refining Company posted that price."

MR.NOLAN: So they did, but according to my book, Exhibit "145" they were accompanied in posting it by the Gulf, Humble, Magnolia, Stanoline, Texas Companu, Tidewater and associated companies.

MR. PLOTKINS: That is why I asked the withess what pipe line company he used.

MR. COMMISSIONER LIPSETT: What is the reference in your Exhibit?

MR. NOLAN: Exhibit "145", and I was reading from Page 42.

Q MR.HARVIE: Mr. Woolley, in your evidence in connection with Exhibit "165", which is the map that was filed showing the economic line which was figured on the basis of the present situation, present rate, cost and so on. You stated, I understand, that it was the policy of your Company to live up as closely as possible to that economic line?

A Yes.

Q If freight rates or some other factor changes that line what would be the policy of your Company?

A Still to follow the economic line, wherever that may be.

Q The new line?

A The new line, yes sir.

MR. FRAWLEY: If the railways make a new line possible.

THE CHAIRMAN: Now there is nothing more wanted from Mr. Woolley. You say you are wiring for some estimates.

MR.HARVIE: Just on that, that I may

[illegible]

[illegible]

[illegible]

understand. That is a rough estimate of the reduction required in Turner Valley crude to compete with Eastern crude to supply it to the head of the Great Lakes. I am not sure that is what we want. The area that we call area "A" in Exhibit "165", to which we supplied 225,000 barrels last year, does not go to the head of the Great Lakes.

MR. FRAWLEY: It is Rainy River, Ontario, if that is the figure you want.

MR. COMMISSIONER LIPSETT: Well, take that 225,000 barrels.

MR. HARVIE: That will simplify matters considerably if that is clear. That is to retain last year's market.

MR. COMMISSIONER LIPSETT: I was leaving it to Mr. Woolley to fix a point that would be practical to which to go.

(At this stage the Hearing was adjourned until 2.30 P.M.)

MR. FRAWLEY: I notified the two railway companies and I see Mr. Clapperton is here.

THE CHAIRMAN: Mr. Clapperton, you are appearing for the Canadian Pacific Railway?

MR. CLAPPERTON: I am appearing for the Canadian Pacific Railway. May I make a word or two of explanation.

THE CHAIRMAN: Certainly.

MR. CLAPPERTON: I have no instructions to do anything but watch the proceedings and I understand that the Commission would like to have some assistance in understanding the tariff which may be referred to and we are very glad to do anything we can to assist in that respect but beyond that I cannot go at the present time. Mr. Drew is here, the District Freight Agent of the Canadian Pacific Railway and Mr. McBain, who has the corresponding position for the Canadian National, I am appearing for the Canadian Pacific.

THE CHAIRMAN: Some mention was made of freight rates this morning, Mr. Clapperton, and since the Commission may have occasion to make mention of them in any reports which they may make, it seemed fair that both companies should be notified that their rates were to be the subject of discussion, hence the notice to you and to the Canadian National Railway.

MR. CLAPPERTON: Yes.

THE CHAIRMAN: That is all.

MR. CLAPPERTON: Perhaps I should add a word to make my position entirely clear, I cannot at this time permit Mr. Drew to engaged in any attempt to justify the

rates. My instructions will not allow me to go that far; whether I will be instructed, if your Lordship thinks I should get instructions, whether I will be instructed to take part in any such controversey I do not know but the matter of the fixing of freight rates of course is a matter within the jurisdiction of the Board of Transport Commissioners and has been the subject of many judgments by that Commission and at the present time I cannot allow Mr. Drew to attempt to justify the rates. In any event I think we would be justified in asking perhaps for some time to study our position. I do not know what is involved in the matter at the present time.

THE CHAIRMAN: I do not either, you are just here to hear the evidence if you wish to and do whatever you think proper.

MR. CLAPPERTON: I will be very glad to hear the evidence, sir.

MR. FRAWLEY: Mr. McBain, will you note that Mr. McBain is here representing the Canadian National.

THE CHAIRMAN: What is Mr. McBain's name?

MR. McBAIN: Robert M. McBain.

THE CHAIRMAN: And Mr. Drew's name?

MR. CLAPPERTON: Richard W. Drew.

THE CHAIRMAN: Well Mr. Frawley, what have you in mind?

MR. FRAWLEY: I will call Mr. Cottle.

THE CHAIRMAN: Is he raising the question of freight rates?

MR. FRAWLEY: Yes, and what I propose to do---

THE CHAIRMAN: Perhaps Mr. Clapperton and Mr. Drew and Mr. McBain should be told what was said this morning which gave rise to this suggestion that they should be notified.

MR. FRAWLEY: Yes, I think I can go over that bit of evidence which I think your Lordship refers to with Mr. Cottle now and cover precisely what was got out of the witness Woolley, the refinery man for the British American Oil Company from Toronto.

FREDERICK GEORGE COTTLE, having been first duly sworn, examined by Mr. Frawley said:

Q Mr. Cottle, you are a chartered accountant?

A Yes.

Q And a member of the Institute of Chartered Accountants of this Province?

A Yes.

Q And at the moment a member of the Petroleum and Natural Gas Conservation Board?

A Yes.

Q Prior to assuming your position as a member of the Conservation Board you were auditor to the Board of Public Utility Commissioners of this Province?

A Yes.

Q And when did you join the Conservation Board?

A July 1, , 1938.

Q How long before that were you engaged with the Public Utilities Board?

A January 1 , 1937 on a full-time basis. I was engaged with the Utilities Board on a part-time basis for approximately two years prior to that time.

Q Now Mr. Cottle did you have something to do with the application, with the reference made to the Dominion Tariff Board by the Minister of Finance, into the petroleum industry in the year 1935?

A Yes I did.

Q And did you attend further Hearings in connection with that reference in Ottawa in the month of February, 1938?

A Yes I did.

Q And at whose request was that latter Hearing brought on, what was the nature of that latter Hearing which was brought on before the Board in February, 1938?

A I am not sure at whose request the Hearing was brought on but it was a Hearing to inquire into the marketing problems involved in disposing of the increased production in the Turner Valley field.

Q And were the railway companies represented at the Sittings of the Tariff Board last February?

A Yes they were.

Q Both the Canadian Pacific Railway and the Canadian National?

A Yes.

Q And there were discussions both in and out of the Tariff Board reference on the question of moving crude oil from Calgary?

A Yes.

Q Now did you make it your business to inform yourself with respect to the rates, not only on crude but on refined products in Western Canada?

A Yes I did.

Q Well now will you give me some rate and I would ask, I hope Mr. Clapperton's instructions go this far, to check what Mr. Cottle may say, so that we will be talking about the correct rate.

MR. CLAPPERTON: Yes.

Q Will you give me the rate on refined petroleum prdoducts from Moose Jaw, Saskatchewan, to Winnipeg, Manitoba, and give me the mileage?

A The rate from Moose Jaw to Winnipeg on petroleum products is 60 cents per hundred weight; the mileage is 398 miles.

Q THE CHAIRMAN: Just a moment, Moose Jaw to?

A Winnipeg, 60 cents per hundred.

Q And the mileage is?

A 398 miles.

MR. CLAPPERTON: Those are correct.

THE CHAIRMAN: 398 miles and the rate is 60 cents per hundred weight.

MR. CLAPPERTON: Yes.

THE CHAIRMAN: I presume moving in carload quantities?

MR. CLAPPERTON: That is carload.

Q MR. FRAWLEY: For carload quantities?

A Yes.

Q What is the rate on refined petroleum products from Fort William, Ontario, to Winnipeg, Manitoba per hundred weight and what is the mileage?

A The rate from Fort William to Winnipeg, a distance of 434 miles is 50 cents per hundred weight.

Q THE CHAIRMAN: Also carload quantities?

Q MR. FRAWLEY: Also carload quantities?

A Yes.

MR. CLAPPERTON: The mileage is 419 miles, that is our figure.

WITNESS: Is that Canadian National or Canadian Pacific?

MR. CLAPPERTON: Canadian Pacific. 50 cents is right.

Q MR. FRAWLEY: 50 cents is right, but the mileage is 419 miles and you had 434?

A Yes, I do not understand the reason for the difference in this, unless the 434 is the C. N. mileage. I assumed the mileage as I received from the railways in each case were the shortest haul but that may not be the case though.

Q No, we have to have a claculation made there for you because I want you to tell me, to compare the rates in percentages of mileage and percentage of rate.

THE CHAIRMAN: I want to be clear, is this figure which you are giving applicable to both railways or to one?

A The mileages I assume to be the shortest distance in each case, that is to say whether the C. P. R. has the shortest mileage between two given points on the charts am reading from I would assume that the mileage I have is the C. P. R. On the other hand if the shortest mileage is on the C. N. R. route then I assume that the mileages I have are C. N.

MR. NOLAN: Why should we have these things when we have representatives here of the companies that can speak as to the mileages and the rates.

A I can say that these mileages were computed for me in the Divisional Offices of the C. N. R. and the C. P. R.

at Edmonton.

Q MR. FRAWLEY: Let us see how much difference there is, you say the mileage as given to you by the railway was 434 miles from Fort William to Winnipeg?

A Yes.

Q And the rate is 50 cents?

A Yes.

Q And our friends have been good enough to agree that the rate is correct but the mileage is 419. Now it is not precisely the same with both railway companies I take it.

MR. CLAPPERTON: No.

MR. FRAWLEY: Would you give us the railways----

MR. DREW: Speaking of mileage, at that time the short line mileage is usually given.

MR. FRAWLEY: And the other meets it.

MR. DREW: Yes.

MR. McBAIN: The mileage to Winnipeg is 434 miles.

MR. FRAWLEY: Let us have it on the record, that 419 miles is the C. P. R. mileage from Fort William to Winnipeg and 434 miles is the C. N. R. mileage from Fort William to Winnipeg.

THE CHAIRMAN: Now this rate, did you give the rate?

MR. FRAWLEY: The rate is 50 cents.

THE CHAIRMAN: On what?

MR. FRAWLEY: On 100, well what is it?

A It is on one hundred weight of petroleum or petroleum

products.

Q MR. HARVIE: That is manufactured?

A The term in the tariff is called "petroleum or petroleum products in carloads", that is manufactured petroleum.

Q THE CHAIRMAN: Manufactured petroleum, is that right?

Q MR. FRAWLEY: Is that what you say?

A Yes.

Q What we have been calling "refined petroleum products" here?

A Yes, it would include gasoline, distillate and some such products for which no special tariff is published.

THE CHAIRMAN: All I want to get clear, is that crude oil?

A No sir, there is a special tariff on crude oil.

Q MR. FRAWLEY: Now while you are at it, give me the mileage and the rate from Regina to Winnipeg?

A The rate from Regina to Winnipeg on petroleum or petroleum products, a distance of 356 miles is 56 cents per hundred weight.

MR. CLAPPERTON: Correct.

Q MR. FRAWLEY: That is correct, now Mr. Cottle you have---

THE CHAIRMAN: Again carload I suppose?

Q MR. FRAWLEY: Again in carload quantities?

A Yes.

THE CHAIRMAN: Yes.

Q MR. FRAWLEY: Now take the Regina to Winnipeg

movement as against the Fort William to Winnipeg movement, will you give me the comparison which you have worked out?

A The mileage from Regina to Winnipeg, namely 356 miles, is approximately 85% of the mileage from Fort William to Winnipeg, which is 419 miles.

Q Yes, and the freight rate is, from Regina to Winnipeg is what percentage more than the freight rate from Fort William to Winnipeg?

A 20% more.

MR. FRAWLEY: Perhaps you are not trying to follow the percentage column.

MR. CLAPPERTON: We are not attempting to.

MR. FRAWLEY: All right.

Q MR. FRAWLEY: And the percentage in the other movement from Moose Jaw to Winnipeg as against Fort William to Winnipeg?

A The mileage from Moose Jaw to Winnipeg 398 miles is approximately 95% of the mileage from Fort William to Winnipeg, which is 419 miles.

Q Yes, and the freight rate?

A Pardon me, I said that the rate from Regina to Winnipeg was 20% more than from Fort William to Winnipeg.

Q Yes.

A It is 12% more. The 20% is Moose Jaw.

Q 12% more from Regina?

A Yes, and the rate from Moose Jaw to Winnipeg is 20% more than the rate from Fort William to Winnipeg.

Q So one way of stating it is that for 85% of the mileage the freight rate is 12% more, that is that Regina to Winnipeg movement, as against the Fort

William to Winnipeg?

A That is right.

Q And from the Moose Jaw to Winnipeg movement as opposed to the Fort William to Winnipeg movement, 95% of the mileage is 20% more freight?

A That is right.

Q Now Mr. Cottle, do you know, if there were movements of gasoline, of refined products from Sarnia and Toronto respectively to Winnipeg, how would it move?

A Well in my opinion it would move by boat to Fort William and from Fort William to Winnipeg by rail.

Q When you say in your opinion, there has been in the past, there was a movement of refined products that way?

A That is the only movement I have any knowledge of.

Q The only other way would be all rail?

A All rail.

Q From Sarnia to Toronto?

A Yes.

Q Sarnia and Toronto both being on the lake, you say the movement would be as it was in the past, all boat to Fort William and by rail from Fort William to Winnipeg?

A Yes, that is the logical movement because it is the cheapest of course.

Q And the refined products which are now selling in the Winnipeg market are in the main manufactured where and from what kind of crude?

A Well in the main they are manufactured at Regina or

Moose Jaw or, Winnipeg, from Turner Valley crude.

Q So that is it a real competition, this rate, this freight rate on finished goods from Fort William to Winnipeg, as against the rate from Regina to Winnipeg and from Moose Jaw to Winnipeg?

A What do you mean by "a real competition"?

Q Is it a rate which would have to be faced if there was an attempt made to recapture the Manitoba market for Turner Valley products?

A Oh definitely, yes.

Q Now that is all, there were other things I wanted to ask Mr. Cottle about, that I am sure the railway people would have no interest in at all so that I thought I would stop at this point, that is all I have to ask.

Q MAJOR LIPSETT: Mr. Cottle, do we understand you take this Regina to Winnipeg, that you pay 12% more freight to get 15% less mileage?

A That is right.

Q You are at a double disadvantage?

A Yes.

Q And the same applies on this Moose Jaw to Winnipeg?

A Yes, the same, sir.

Q So far as you know are there any circumstances that would give rise to that?

A Well anything I would say would be pure speculation. I do not feel confident to discuss the reasons for the discrepancy on the per mileage rate in the opposite direction.

Q MR. FRAWLEY: Have you worked out, if it was on an equal mileage basis can you tell us what

the rate would be from Regina to Winnipeg as against the present rate of 56 cents?

A Well on the same rate per mile the rate from Regina to Winnipeg would be 42 cents per hundred weight; that is to say on the same rate as applied, on the same mileage rate as applied from Fort William to Winnipeg, the rate from Regina to Winnipeg would be 42 cents as compared with the present rate of ~~45~~ 56 cents.

Q And what would the Moose Jaw rate be?

A 47½ cents on the same basis, as compared with the present rate of 60 cents.

THE CHAIRMAN: Any further questions?

MR. NOLAN: I was going to ask, Mr. Cottle will be back on other things.

MR. FRAWLEY: Oh yes.

MR. NOLAN: Before the pipeline is over.

MR. FRAWLEY: As soon as we have finished with the railway rates.

Q MR. NOLAN: I was going to ask whether he knows whether the Alberta Petroleum Association or Producers Association took this matter up with the Railways recently?

A I do not know that they have.

Q Do you know if any representatives from that Association went East to see the railways?

A I do not know of any representatives going East to speak to the railways in relation to this particular matter.

Q Well some representatives went East, what did they go for?

A To discuss as I understood it the possibilities of Turner Valley crude oil moving into the Eastern markets as such, not as refined products.

Q Just as crude oil?

A Yes.

Q With whom did they discuss that?

A I understood with the railway companies and with the Imperial Oil Limited and British American Oil Company Limited officials.

Q Do you know who those representatives were?

A I do not know who was approached in the British American organization---

Q No, but who went from Calgary?

A From Calgary representing the Association?

Q Yes.

A Mr. M. M. Porter and Mr. Herbert Greenfield.

Q And you say so far as you know they did discuss with the railway companies the possibility of our crude being transported into Eastern Canada?

A So far as I know.

MR. FRAWLEY: And don't forget Mr. Chard went along.

A Yes, that is right, Mr. Chard.

Q MR. HARVIE: Just who is Mr. Chard?

A Well he is an employee of the Provincial Government, I do not know his official title. Mr. Frawley can probably tell you.

MR. FRAWLEY: Now he is Chairman of the Public Service Vehicle Tax, the administration of that Act.

Q MR. NOLAN: And what was he then?

MR. HARVIE: So-called freight rate expert for the Provincial Government.

MR. FRAWLEY: We are all talking about what we understand and I say I think he was.

Q MR. FRAWLEY: You said to Mr. Nolan that you did not know of any discussions with the railway companies by these people last month or so on the question of the freight rate on refined products?

A I do not know of any such discussion, there may have been however.

Q Oh yes.

A I was not closely associated with the negotiations which were going on.

Q The purpose of the expedition was to see if crude oil could get into the Sarnia and Toronto refineries?

A That is my understanding.

Q Just the same thing that the Ottawa conference before the Tariff Board was for last February?

A That is right.

Q MAJOR LIPSETT: What number of gallons of refined products are there to a hundred weight, for freight purposes, do you know Mr. Cottle?

A A gallon weighs, for rate purposes, for freight purposes, 8 pounds, that would be 12½ gallons to a hundred weight.

Q THE CHAIRMAN: That is correct is it?

A Either crude or refined, sir.

THE CHAIRMAN: Now Mr. Frawley, that is all Mr. Cottle, do you want to ask anything, Mr. Clapperton?

MR. CLAPPERTON: No sir.

THE CHAIRMAN: Now with reference to what Mr. Clapperton has said, Mr. Frawley, if you think it important that they should appear here it will not matter in the least what the C. P. R. thinks they should or should not do. They will be called as witnesses.

MR. FRAWLEY: Yes.

THE CHAIRMAN: They are not above the law. If on the other hand there is nothing to call them about that is an end to the matter.

MR. FRAWLEY: Oh yes, Mr. Chairman, I would like to ask Mr. Drew something about this rate. I think that it is idle to leave it the way it is at the moment but I do not want to interfere in taking any undue advantage of Mr. Drew and calling him at the moment. If Mr. Clapperton's instructions are that he should not attempt to justify the rate that does not matter much, but I do not know---

THE CHAIRMAN: It is not a matter, we are not seeking arguments from Mr. Drew or Mr. McBain on this occasion. If there are any facts which you wish to call these witnesses about.

MR. FRAWLEY: I think to settle it I will call Mr. Drew. Mr. Drew will you take the stand.

THE CHAIRMAN: We have no idea either of their entering into a debate about the matter.

R. W. Drew.

RICHARD WILLIAM DREW, having been first duly sworn, examined by Mr. Frawley, said:

Q Mr. Drew, you are the Divisional freight agent at Calgary for the Canadian Pacific Railway?

A Yes.

Q With jurisdiction over the Province of Alberta?

A Yes.

Q You have had some knowledge of the efforts made in the past to get a favourable freight rate on Turner Valley crude moving eastward?

A Yes.

Q And there was a concession granted by the railway companies in September, I think, of 1937, with respect to the movement of Turner Valley crude?

A Well, I would just not put it that way, there was a hearing before the Board of Transport Commissioners and a scale of rates were established by the Board.

Q I thought the rate had been given and then there was some objection that it discriminated?

A Well, there were adjustments made, at the Board's hearing.

Q The fact, is, is it not, there was a rate made and published?

A Oh, yes, that is right.

Q And then some of the small refineries in Saskatchewan thought it should refer also to them?

A Yes, there was a certain restriction on the quantity.

Q That was a rate of 19 cents a hundredweight for crude moving from Calgary to Regina?

A Let me see, I never quote a rate from memory, they fluctuate so fast that we cannot keep up with them, I see somebody has clipped it out of here, I think it is 19 cents from Calgary to Regina.

Q Or about 52 cents a barrel?

A Well, I did not figure it out, that is the rate which was published as the result of a great deal of negotiations as to pipeline costs and that sort of thing.

Q In cents per hundred pounds?

A Yes.

Q THE CHAIRMAN: 19 times 12½, is that not right?

Q MR. FRAWLEY: 280 pounds in a barrel, there are 280 pounds in a barrel?

THE CHAIRMAN: Oh, yes.

Q MR. FRAWLEY: Mr. Drew, I would like to file a tariff on that crude movement with the Commission, if you have some extra copies?

A Well, I am sorry, I have not got them here.

Q Could you have a copy mailed to me, Mr. Drew?

A Yes, I think, as a matter of fact, we supplied you with a copy.

Q Yes, I think some time ago, I may be able to find it.

THE CHAIRMAN: Are you going to put that in so that we will know, and if not all right.

MR. FRAWLEY: Yes, I would like to put it in, but you say this is your own copy?

A Yes, that is the only copy I have.

Q MR. FRAWLEY: We will give it a number, sir.

THE CHAIRMAN: No, I was just noting it, if it is something to be put in before we finish this, you are going to file a copy of what?

A The Canadian Pacific Railway tariff No. W 290 and supplements, there are several supplements to it.

Q MR. FRAWLEY: And there was a movement, the rate also applied to Moose Jaw?

A Yes.

Q At the same time?

A Yes.

Q Something less than 19 cents?

A I think a half a cent.

Q 18½ cents?

A Yes, I think so.

Q Now, Mr. Drew, so far as you know, there has been no special, that was a special rate established for the crude, was it not?

A Well, it is what we call "a competitive rate".

Q A competitive rate, because at that time the question of building a pipeline was raised?

A Yes.

Q But there was never any rate fixed for the movement of refined products out of Moose Jaw or Regina after the Turner Valley crude had been made into gasoline?

A Well, we, the refinery has been in existence long before the Turner Valley crude came in, and there was a scale of rates for refined products, both out of Regina and Moose Jaw.

Q Yes, when they were making gasoline out of American crude?

A Yes.

Q And there never was any change in the rate which was established before the Turner Valley crude moved into those refineries?

A No.

Q And that is the rate which is in existence to-day?

A Yes.

Q And you have been good enough to listen to the rates which Mr. Cottle gave us, and those are the correct rates as per your tariff?

A Yes.

Q Then the rate that Mr. Cottle gave us on the movement of petroleum products moving westward from the Head of the Lakes, Ontario gasoline, gasoline made in Ontario and coming up the Lakes, those rates also quoted by Mr. Cottle are correct?

A Yes.

Q There would appear to be an obvious disadvantage to the eastward moving gasoline out of Regina and Moose Jaw as against the westward moving gasoline from Fort William, do you agree with that, is that a fair description of it, a disadvantage?

A No, I would not put it that way, the haul from Fort William to Winnipeg is only a portion of the haul, it is a proportionate rate, the other is the complete haul.

Q I am told, Mr. Drew, that that is not quite a fact, that the Imperial Oil brings its own gasoline in its own bottoms?

A That is my information but still that does not say that it is not a haul involved in getting it to Fort William regardless of who handles it.

Q Well, that is your position then, that the favourable rate given to, or the rate which at the moment appears to be an advantage to the Ontario gasoline, moving from Fort William to Winnipeg, is given because of the consideration that it is only part of the haul?

A Oh, no, no.

MR. CLAPPERTON: My Lord.....

WITNESS: That rate has been in existence for a great many years and I think it is common knowledge that this question of rates from Fort William, not only to Winnipeg but to all of Western Canada, has been before the Board of Railway Commissioners on a great many occasions

and various judgments have been issued by the Board justifying the rates which are in existence to-day and there have been no changes.

Q I was only taking your answer, that it was a part rate, that it was part of the haul?

A That was in direct answer to the question which you gave me.

Q I see. Now, you do not seek to put it on the ground wholly that it is a part of the haul from the Ontario refinery?

A Not exactly, no.

Q You say it is part of that general freight structure on the movement westward from Fort William, which has been before the Board of Railway Commissioners on many occasions?

A Yes, there are a large number of judgments out on it, rehearings galore.

Q Mr. Drew, are you able to give me the rates on these same kind of goods from Fort William to Regina?

THE CHAIRMAN: Let us understand this, Mr. Drew says that there are a large number of judgments out on this general subject.

MR. FRAWLEY: Yes.

WITNESS: Yes, I cannot give you references to them by memory.

THE CHAIRMAN: Has this particular question of the hauling of the refined products been the subject of discussion?

A Well, all the rates, they are all based on the same basis, it is not only on petroleum products, but it applies to silk stockings or barbed wire or anything else.

Q That is what I wanted to know?

A No.

Q There has been no special enquiry concerning the petroleum products?

A No, other than all the rates westbound from Fort William.

Q MR. FRAWLEY: Well, just dealing with that, you see, Mr. Drew, perhaps I can put it to you as to the importance, if I may say so, of an examination of these rates at the moment, as you are aware since the crude is moving from Calgary to Regina and Moose Jaw refineries, Turner Valley crude in the form of gasoline and other refined products has captured the whole Western Canada market, you understand that to be a fact?

A Yes.

Q And I think, thanks to that rate which was given on crude moving into Regina and Moose Jaw refineries, you understand that to be the case?

A Yes.

Q Now, the question has arisen that part of that market will be lost to gasoline made in Toronto and Sarnia respectively from East Texas and Illinois crude, and that the Ontario gasolines manufactured from these American crudes will recapture the Winnipeg market and back up the Turner Valley crude or back up the refined products of these two refineries in Western Canada; now, I put it to you that that is the importance of an examination of the rates, and when we examine it we find that the rate under which this American crude as gasoline would move, has an advantageous rate over and above the rate at which the Turner Valley made gasoline would have to move into the Winnipeg market from the West. You understand, of course, that the full significance of the two rates and why, has come up before this Commission?

A I am, but you are not taking the whole story, you are not taking into consideration.....

MR. CLAPPERTON: May I interrupt for a moment, please? I think Mr. Frawley is getting on to the ground that I respectfully submit should not be entered into at this time. If Mr. Frawley desires to go into this subject, then I suggest that the matter should be adjourned so that I may be able to get instructions and we may be able to represent the matter properly.

THE CHAIRMAN: What is it you are complaining about, I do not understand.

MR. CLAPPERTON: Well, Mr. Frawley, is asking questions about the justification for the rates, the reasons for rates. Now those are matters which are within the jurisdiction of the Board of Railway Commissioners. They may or may not be within the jurisdiction of this Commission. I am not saying anything about that at the present time but I am without any instructions as to what position I should take before this Commission and I respectfully suggest to you that with regard to these matters they should be postponed until I have had an opportunity of getting instructions.

THE CHAIRMAN: Well I do not understand, you think that if you got any instructions from the head office of your company that any witness who is called before this Commission should decline to answer, if so he would so so at his peril so long as it is a question of facts that he is being asked about, just a question of facts. You see we are empowered to call witnesses.

MR. CLAPPERTON: Yes, quite so.

THE CHAIRMAN: And deal with them as in any Court. Now because that witness happens to eminate from the Canadian Pacific Railway that will not make the slightest difference to this Board.

MR. CLAPPERTON: No, I understand.

THE CHAIRMAN: Equally we do not wish to embarrass you in any way, if your instructions are as to how far you are to go in setting up a position, that is something. It is again something if you are saying you are going to get instructions whether or not you will defy this Board.

MR. CLAPPERTON: Well I do not know what instructions I will get, Mr. Chairman.

THE CHAIRMAN: We will not travel on the assumption that you will get any such instructions.

MR. CLAPPERTON: May I put it this way before you, my Lord, I have raised no objections to questions about facts but Mr. Frawley is not asking questions about facts now.

THE CHAIRMAN: Well I think, Mr. Frawley, insofar as you seek facts I think that you should not seek conclusions on facts.

MR. FRAWLEY: No.

THE CHAIRMAN: From this witness, he is called as a witness as to facts and I think that covers probably what you have in mind.

MR. CLAPPERTON: Well before I sit down, may I once again, ask the Commission to postpone this matter in order that it may be gone into at a time when I have had an opportunity of getting instructions and considering my position. All I know about this matter is that Mr. Frawley phoned Mr. McCaig today and said that

the matter of freight rates was going to be discussed, would I have Mr. Drew here. I have him here and that is all I know about the matter.

THE CHAIRMAN: Just limit your examination to facts, Mr. Frawley.

MR. FRAWLEY: Yes.

Q MR. FRAWLEY: Mr. Drew, will you give md the rate from Fort William to Regina?

A For refined products?

Q Yes.

A 98 cents per hundred pounds in carload lots.

Q And the rate from Regina to Fort William?

A We do not, it is the same, it is in the reverse direction, is it not?

MR. MCBAIN: No, I do not think there is a rate.

WITNESS: The same rate in a reversed direction. (after consulting with Mr. McBain), 98 cents per hundred pounds in carload lots.

Q MR. FRAWLEY: So that the rate on gasoline then from Regina to Fort William is 98 cents and from Fort William to Regina is 98 cents?

A Yes. Incidentally there is no movement in either direction and has never been in recent years.

Q It begins to cary and to leave the equality per mile on the movement to intermediate points?

A Oh, you can get thousands of articles of a similar nature all over the country.

MR. FRAWLEY: All right, thank you Mr. Drew.

THE CHAIRMAN: The next witness.

MR. FRAWLEY: I intended to call Mr. McBain but I do not know as it is necessary now.

THE CHAIRMAN: Well you had better have him say it.

MR. FRAWLEY: All right, Mr. McBain.

ROBERT MURRAY McBAIN, having been first duly sworn, examined by Mr. Frawley said:

THE CHAIRMAN: Mr. McBain appears without Counsel and you will restrict your examination to facts.

Q MR. FRAWLEY: Mr. McBain you are the Divisional Freight Agent at Calgary for the Canadian National Railway?

A Yes.

Q Will you just confirm these rates for me, please, the rate on your railway for refined petroledum products from Regina to Winnipeg is 56 cents?

A Correct.

Q The mileage is 356 miles?

A That is the short line mileage.

Q As I understand---

A We are governed by the short line.

Q If you happen to be wrong, you mean the short line rate?

A Correct.

Q The rate on refined petroleum products from Moose Jaw to Winnipeg, a distance of 419 miles is 60 cents on your railway?

A Moose Jaw to Winnipeg?

Q Moose Jaw to Winnipeg?

A No, 398 miles.

Q 398 miles, I am sorry.

A 60 cents is correct.

Q The rate on your railway on refined petroleum products from Fort William to Winnipeg is 50 cents?

A Correct.

Q And the mileage, the freight mileage is 419 miles?

A Correct.

Q The rate on refined petroleum products from Fort William to Regina on your railway is 98 cents?

A Correct.

Q And the rate on the same products from Regina to Fort William is 98 cents?

A Correct.

Q Have you the mileage from Port Arthur to Winnipeg?

A I have not got it here, it is 423.7, speaking from memory.

MR. FRAWLEY: Thank you Mr. McBain.

THE CHAIRMAN: Now with respect to the freight rates, Mr. Clapperton and Mr. McBain, you have been asked simply questions as to what the facts are. If either corporation desires to make representations to us or to call witnesses before us in explanation of those rates or to any other end we will be glad to hear them, that is all we have to say. The next witness.

MR. FRAWLEY: Mr. Cottle.

FREDERICK GEORGE COTTLE, having been recalled, examined by Mr. Frawley said:

THE CHAIRMAN: And I am not limiting you, Mr. Frawley, if you want to pursue the reasons why.

MR. FRAWLEY: Yes, I understand sir.

THE CHAIRMAN: Now Mr. Frawley, you say you

are calling Mr. Cottle on quite another phase.

MR. FRAWLEY: Yes, on quite another phase now.

Q MR. FRAWLEY: Mr. Cottle, as a member of the Oil and Natural Gas, petroleum and natural gas Conservation Board, will you tell me whether or not in the opinion of your Board the orders which the Board might make during the year 1939 as you now see them, will of themselves result in any diminution of the throughput through the pipeline?

A No, I do not think the conservation orders of the Board will restrict the throughput of the pipeline in the year 1939.

Q Will you give me the number of wells now producing in the Turner Valley?

A There are 68 oil wells now producing in Turner Valley, included on the last survey order of the Board.

Q THE CHAIRMAN: Would you mind giving me that again, Mr. Cottle?

A There are now 68 oil wells as distinguished from gas well producing in the Turner Valley field.

Q Which you would describe as "crude"?

A Crude wells, yes.

Q Yes, 68?

A 68.

Q MR. FRAWLEY: How many drilling permits for drilling in 1939 are now outstanding?

A There are 7 drilling permits issued on which no work has been undertaken; there are 22 wells in respect of which we have operating reports, three of which had not

spudded in as at February 6 last.

Q THE CHAIRMAN: 7 not started and 22 that have apparently started, is that right?

A Yes, that is the situation, out of the 22, there are 3 that have not spudded in although they have started.

MR. NOLAN: I am sorry I did not catch Mr. Cottle's answer.

Q MR. NOLAN: Of that 68 wells' figure, are they producing wells?

A 68 producing wells included on our last schedule.

Q That is not the figure we had.

MR. FRAWLEY: That is the figure you have now, those are last year's wells and this year's and maybe the year before, all of the crude wells.

MR. NOLAN: My only point was we added up all the wells and took away everything which was controlled and had one left and that was one out of 62.

THE CHAIRMAN: I have not that book here.

MR. NOLAN: My memory was---

THE CHAIRMAN: Yes, I remember quite well doing that.

MR. NOLAN: There were 39 wells under contract to the Royalite, 19 to the British American, 2 to the Gas and Oil Products, 1 to the Lion Oils making a total of 61, leaving the National No. 1 independent and their total was 62.

MR. FRAWLEY: And this is the witness who made it out so we will ask him about it now.

MR. NOLAN: I am not quarrelling about it.

MR. FRAWLEY: No, I think it was a very fair question.

MR. NOLAN: I thought this was the time to ask it.

MR. FRAWLEY: It certainly is.

WITNESS: My answer is there are 68 wells on our list.

Q MR. FRAWLEY: Here is Exhibit "128" which you prepared and there are a half a dozen short.

A Shall we call these wells, the 68 wells by name.

THE CHAIRMAN: Oh no.

MR. NOLAN: You might reconcile it.

THE CHAIRMAN: Direct your mind to this apparent discrepancy as between 62 and 68.

MR. NOLAN: Perhaps Mr. Cottle would look at this during the adjournment. There is nothing that takes more time than a reconciliation.

WITNESS: I have the 68 wells here.

MR. NOLAN: It is going to take some time.

THE CHAIRMAN: Is that so?

A It will take a few minutes to check the 68 wells I have. I have found two now, there is Anglo-Canadian 1, and Anglo-Canadian 3 which are not on here.

THE CHAIRMAN: We will just adjourn for five minutes and six wells you should be able to find in that time.

(AN ADJOURNMENT OF FIVE MINUTES WAS HERE TAKEN)

[illegible]

[illegible]

[illegible]

Q MR. FRAWLEY: Mr. Cottle, Mr. Nolan called your attention to the fact on Exhibit "128" there were sixty-three wells only shown as being either under contract or not under contract?

A Mr. Nolan said there were sixty-two wells on that Exhibit, Mr. Frawley.

MR. NOLAN: That is the evidence.

Q MR. FRAWLEY: There are sixty-three. They have been added again and they come to sixty-three. There are two Comoil wells put down as one.

MR. NOLAN: When you read the transcript you will have to note there are sixty-three, really.

THE CHAIRMAN: Yes.

A In addition to the sixty-three wells listed on Exhibit "128" the following wells were in production as at February 1, 1939, not included in the Exhibit. Home-Millarville No. 1, Extension No. 1, Anglo Canadian No. 1, and Anglo Canadian No. 3, and Command No. 1, making five additional wells to the Exhibit, and bringing the number to sixty-eight.

MR. FRAWLEY: We will correct that in Exhibit "128" by filing a separate Exhibit to-morrow showing these additional five wells, because they are also under contract, as far as you know?

A As far as I know, yes. These are recent completions with the exception of Command, and I do not know why Command would not be on the Exhibit.

Q Do you know that they are under contract either to the same companies mentioned in Exhibit "128", the Royalite, British American, Gas & Oil Products and Lion Oils?

A I assume that they are but I do not know.

Q You will check that and we can supplement that information?

A I would gladly do that.

Q There is only one other matter. Have you made a computation, Mr. Cottle, of the consumption in the year 1938 in Western Canada of crude petroleum and motor fuels. In other words, have you computed the Western Canadian market in 1938?

A Yes, I have.

Q You now present a statement entitled "Computation of Prairie Consumption of Crude Petroleum and Motor Fuels, Year 1938"?

A Yes. This estimate was made January 19th, 1939.

(DOCUMENT IN QUESTION IS NOW MARKED EXHIBIT "170".)

Q Will you run through Exhibit "170" and tell us what it consists of?

A I may explain first that Exhibit "170" is a computation of the apparent disappearance of petroleum or petroleum products during the year 1938. That is to say, it is a computation of the total production within the Prairie Provinces together with the importation of refined rproducts or crude petroleum into the Prairie Provinces during the same period. There is one omission from this statement, however, and that is any quantity of motor fuel which may have been imported into the Province of Manitoba from Ontario. Previous witnesses have said that some gasoline was shipped into the Manitoba area from Fort William. I have no definite knowledge of the quantities so shipped and they are not taken into consideration on Exhibit "170".

MR. NOLAN: Is Mr. Cottle referring to the B. A. evidence of the state of emergency that existed?

A Mr. McGrath is the one I am referring to particularly.

Q MR. FRAWLEY: This is the best estimate your

Board was able to make of the consumption in Western Canada?

A That is right.

Q MR. HARVIE: May I just make certain. This means the Provinces of Manitoba, Saskatchewan and Alberta and what part of B. C. is.....

A Is supplied from Turner Valley, corredt.

Q It does not include any part of Western Ontario west of the Head of the Great Lakes?

A To the extent that gasoline was shipped from Moose Jaw to Winnipeg and may have gone into Western Ontario, that does go into that area.

Q It is really that market that is supplied from the Calgary, Moose Jaw and Regina refineries plus what has come in from Montana?

A Yes, sir. The total apparent disappearance of crude oil and gasoline and motor fuels during the year 1938 as shown on Exhibit "170" is, 21,295 barrels per day. Total for the year, 7,772,556 barrels. That figure consists of the total Turner Valley production of 6,685,045 barrels, together with the production from other fields in Alberta totalling 51,156 barrels, or a total production of 6,736,201 barrels, or 18,455 barrels per day. The importation of crude oil from the United States during the year 1938 was, from the State of Montana, 331,579 barrels, or 909 barrels per day. From other States of the United States, 191,611 barrels, or 525 barrels per day. . Importation of casing head from United States for blending purposes was 60,555 barrels or 166 barrels per day.

Q THE CHAIRMAN: What purposes did you say?

A For blending purposes, blending with gasoline.

Q Oh, yes.

A Importation of motor fuels from United States, total, 452,610 barrels, or 1,240 barrels per day.

Q MR. FRAWLEY: That is the first time you have used that expression, "motor fuel", that is refined petroleum products?

A Tractor distillates and other motor fuels.

Q Gasoline?

A Yes.

Q Yes. That is the total?

A That is the total.

Q That is all I have to ask.

Q THE CHAIRMAN: Would your Board, or would you have a record of whether or not the consumption of gasoline has increased or decreased in Western Canada in the last few years?

A We have a record of the total apparent disappearance of crude oil and on the assumption that the crude oil becomes gasoline, yes, we have a record in that way.

Q Yes?

A In addition to that I made some estimates, approximately a year ago, of the consumption in Western Canada, and computed as well as I could the consumption in the year 1936 and 1937. I could obtain those figures for the Commission if you wish them.

Q Yes.

A I may say there is a definite increase.

Q A definite increase in consumption year by year?

A Yes, sir.

MR. FRAWLEY: The gasoline tax people have these figures.

THE CHAIRMAN: It is going to be forthcoming, is it?

You see, we have heard a suggestion of possible reasons for a decrease because of another crude coming in. If there is anything to be said for a natural increase in consumption we would like to hear about it too.

MR. FRAWLEY: We have rather assumed there is this yearly increase. I will put in some figures, certainly, for Alberta and others, if we can get them.

Q MR. NOLAN: I was going to ask Mr. Cottle, this is for the Prairie Provinces altogether, is it not, Mr. Cottle?

A Yes. Speaking very loosely, Mr. Nolan, these figures include some consumption in the Easterly portion of British Columbia and some consumption in the Westerly portion of Ontario, and some consumption also in the North-West Territories. It is what is normally known as the Prairie Province market, however.

Q This was made up from figures though based on the disappearance in each of the three Provinces, was it not?

A It is made up from the computation of the Turner Valley production, of the Alberta production, and the imports from the customs' figures in the Prairie Provinces.

Q Taking only an estimate for December on the importation?

A Yes, sir.

Q But could you tell me what is the disappearance of our crude oil in the form of gasoline, say in Manitoba?

A I cannot tell you that.

Q It is in here?

A It is in there, yes. But how much of it is gasoline I cannot say. I know no place I could obtain that information for you.

Q Except from the individual companies?

A Excepting from the individual companies.

Q The companies themselves. Because the other day Mr. McGrath gave us some figures on charts. Then there are some figures from the B. A. and there must be other crude going into Manitoba from other refineries other than the B. A. and the Imperial?

A Going into other refineries, you mean?

Q Yes. I was wondering if there was any way we could get at the consumption in Manitoba of the Turner Valley crude, just as a Province without any imaginery market?

A It would be very difficult.

Q Would it?

A Very difficult.

MR. FRAWLEY: We know the number of refineries in Manitoba. There are not very many. Are you speaking of the consumption of crude?

A Of crude or total products. Mr. Nolan, you want the amount of Turner Valley products in Manitoba, do you not, or do you want the total crude oil that is shipped to Manitoba as such?

MR. NOLAN: I do not know what we want.

A If you want the number of barrels of crude oil that go into Manitoba as such it is readily available, but if you wish to know the total consumption of petroleum products in Manitoba which were derived from Turner Valley crude then I cannot tell you, and I do not know who can.

Q You can tell me how many barrels of crude go into the Province of Manitoba, that is as crude?

A As crude?

Q That is not the whole picture?

A Oh, by no means, because the Manitoba market is largely supplied from Moose Jaw and Regina.

Q Mr. McGrath, on his charts that were marked here as Exhibits,

reduced it all to barrels of oil?

A Yes.

Q Crude?

A Yes, sir, and he reduced that, as I understand it, by listing the consumption of the various products at each of his sales stations in that territory.

Q And them working back into the crude which would be necessary to produce that consumption of refined products?

A That is right.

Q He got it worked down to barrels of crude?

A Yes.

Q You say you know the barrels of crude that go into Manitoba, but that is not taking into mind the refined products?

A No. I think we are a little confused there, Mr. Nolan. I know the number of barrels of crude that went to any refineries I know of in Manitoba.

Q That is right, yes?

A And these refineries in Manitoba supplied but a small portion of the Manitoba requirements.

Q Because the Manitoba requirements were obtained from outside the Province of Manitoba?

A Namely, Moose Jaw and Regina.

Q MR. FRAWLEY: And the East?

A And to whatever extent there were movements from Fort William

Q MR. NOLAN: Them when you say "crude imports from the State of Montana", which is one of your heads here, that means into all the Prairie Provinces again, does it not?

A Yes. I may say that is the sum of the Montana figures supplied from the Conservation Board of the State of Montana. I get monthly reports from that body and run a schedule totalling them for the year. This may differ from the

Exhibit that Mr. Plotkins put on the record this morning by a few barrels.

Q I am just trying to understand this statement here and see if it throws any light on our problem. Then we produced from other fields. There are only other Alberta fields producing crude, are there?

A Yes.

Q There is no crude being produced in Saskatchewan or Manitoba?

A I think not. I have no knowledge of any.

Q Well, you would know if there were?

A Well, I might or I might not. I have never heard of any.

Q Do I understand that taking all the other fields in Alberta we have a production of 51,156 barrels a year from the other fields other than Turner Valley in the Province ofA Alberta?

A That is right.

Q Mr. Cottle,what was that first answer you made to my friend Mr. Frawley? Did you say the Conservation Orders which would be brought into effect this year, would not restrict the throughput in the year 1939?

A That is my opinion, yes, sir. That is the Board's opinion.

Q Well, that Order, is it the present Order?

A The Orders which the Conservation Board may make from time to time throughout the year 1939 will not in the Board's opinion restrict the production of Turner Valley below the production allowed during the year 1938, and assuming that the marketing requirements in 1939 are not greater than they were in 1938 there is no reason, so far as the Conservation Board can see at this time, why these orders would prevent the field from producing the market requirements.

Q Well, now, the Board has formulated an Order, just the other day, that came into force after February?

A February 1st, yes, sir.

Q An allowable in crude oil of 10,000 barrels per day for the Turner Valley field?

A That is right.

Q And that is fixed upon the market requirements?

A Yes, if you wish to put it that way. That is the maximum amount of oil which anyone appears willing to take from the wells.

Q Is it the sum total of the nominations of the refineries. Is that another way of putting it?

Q Yes, that is a way of putting it.

Q In order to clear it up, what is this system of nomination. Does the Board understand this?

THE CHAIRMAN: Somewhat.

Q MR. NOLAN: What is the system of nomination?

A There is a little confusion as to the word "nomination". The word in itself means very little to me, personally. What we do when we arrive at the total field allowable is this, in the case of the last order where it was set at ten thousand barrels we found out by asking the people who we know to be in the business of taking crude oil, how much crude oil they intend to take.

Q Yes?

A On the basis of the amount of crude oil which will be taken from the field - call it the market if you will - that is the field taking, we pro-rated the wells on our conservation basis in that amount of oil.

Q And you will continue to do that throughout the year 1939?

A Yes, sir.

Q So that your conservation orders, as they are brought down, will depend upon the amount which the refineries are prepared to take, having regard to their market requirements?

A Quite right.

THE CHAIRMAN: Is that right? I mean providing I suppose they do not make such demands as would make for inefficient operation of the field?

A Oh, quite, sir. But, in my opinion, the market demand in 1939 will not be greater than the capacity of the field to produce without undue waste.

Q MR. NOLAN: But you do not know now what the market requirements for 1939 will be, do you?

A No, I don't. Except that I can make a reasonable estimate on the basis of the demand, the peak demand in the year 1938.

Q 1938 was a good year?

A Yes, 1938 was not only a good year but there was a very large demand for a very short period, due to unforeseen conditions.

Q You have an Order in force at the moment, an allowable of 10,000 barrels of crude per day?

A Yes.

Q When did that Order come into effect?

A February 1, 1939.

Q When is that order going to be changed?

A That is impossible to estimate. It depends entirely upon how soon people will take more oil from the Valley.

Q So it may go on for some time?

A It may or it may not.

Q Then you say that the Conservation Board Orders will not restrict the throughput for 1939. In 1938 was there conservation throughout the year?

A No, the Conservation Orders commenced, as such , on September 2nd, 1938.

Q And prior to that the producer could produce what he liked from his own well?

A Yes, that is right. There was a pipeline pro-ration or a

buyers' pro-ration in effect prior to that time.

THE CHAIRMAN: I was just wondering. I remember hearing an application for an injunction from some Board. Was not that prior to September, 1938?

A No, sir.

MR. NOLAN: That application for an injunction was made in respect to an Order of the Board made in August, late in August, wasn't it?

A It was dated August 31st, but it was not effective, I think, until October 16th.

THE CHAIRMAN: That was this Conservation Board.

MR. NOLAN: Was that the first order.....

THE CHAIRMAN: I remember that case of Spooner Oils

MR. FRAWLEY: That was 1932, the Order that his Lordship heard about.

THE CHAIRMAN: It was long before this.

MR. FRAWLEY: Yes.

THE CHAIRMAN: Had that to do with conservation?

MR. FRAWLEY: The Supreme Court of Canada threw out that Conservation Act in 1932. Reported in 1933. Then there was not any Conservation Board until last July or August, and this first Order came into effect on the 1st of September last. There was also an application to enjoin that.

THE CHAIRMAN: I just remembered about some previous Board applying to me in Court and you were saying that this Board came into being a year ago. I did not understand.

Q MR. NOLAN: You mean the new Board under the new Act. The new Act was passed at which session of the Legislature?

A The Spring session.

Q At the February-March session, 1938?

A Yes, sir.

Q Then there was a Board created but it did not formulate an Order until the one which became operative on September 2nd, 1938?

A That is right.

Q Then prior to that there had been no real conservation or pro-ration in the field, had there?

A There had been pro-ration, quite effective pro-ration, but it was pipeline pro-ration by the Royalite Oil Company.

Q Yes, I see what you mean. Mr. Cottle, there has been a good deal said here about posted field prices. You have made an examination of that subject, have you?

A In what regard, Mr. Nolan?

Q In regard to how they are arrived at?

A Oh, yes. I have examined the methods and the computations employed in the setting of the posted field prices in Turner Valley since the posting of September, I forget the exact date, but September, 1937. I have had knowledge of all postings since that time.

Q And the last posting was 5th January, 1938, wasn't it?

A That is right.

Q There has been no change in the posted field price of crude in the Turner Valley since that date, has there?

A No, sir.

Q You have had time, of course, and you have examined the charts that Mr. McGrath brought up, Mr. Cottle?

A Yes, I have.

Q I am sure the Commission would like to have your opinion as to the date of Turner Valley losing the Manitoba market?

A Well, any opinion I may express on that subject, Mr. Nolan, would have to be predicated upon an assumption.

Q A great deal of the work of this Commission has been predicated upon assumptions?

A That is to say, if there is no cut in the price of Turner Valley crude it is apparent from Mr. McGrath's calculations that it is uneconomical to retain the present market. But no evidence has yet been submitted to satisfy me that that market will be lost.

Q Well, now, I do not follow that.

Q MR. HARVIE: Mr. Woolley's evidence.....

A Yes, pardon me, with the exception of Mr. Woolley's statement

Q MR. NOLAN: You are talking about.....

A I am talking about Mr. McGrath's statements.

Q And you are saying now there is no expression of policy from the Imperial Oil on that point?

A That is right.

Q But you go so far as to say it is uneconomic for the Imperial Oil at the moment, on Mr. McGrath's figures, to supply the Manitoba market with Turner Valley crude?

A That is the logical inference which may be taken from Mr. McGrath's statements. I have not, however, analyzed those statements in detail, Mr. Nolan.

Q You have done a good deal of research into this matter in the last few months, Mr. Cottle, haven't you?

A Into this particular problem?

Q Yes?

A The price of Turner Valley crude?

Q Yes?

A No, I have not within the last few months.

Q I would like your opinion, based on what you know, as to the danger, if it exists, or if it does not, of the Turner Valley losing the Manitoba market?

A Well, I can say this, Mr. Nolan, if I was operating a refinery at Sarnia and if I was operating a refinery at Regina and I had my free choice of crude, comparing Illinois crude at a posted field price of $1.15 and Turner Valley crude at a posted field price of $1.30, that I would supply the Eastern Manitoba market from the Sarnia refinery. That does not mean, however, that if I were the Imperial Oil that I would do the same thing. Does that answer your question?

Q It does and it does not. I want to know if by reason of your examination and the research which you have made, you have come to a conclusion yourself, based on your own observations and upon your own examination, as to whether there is or is not a danger of the Turner Valley losing the Manitoba market?

A In the absence of a change in the price of Turner Valley it is quite apparent there is a danger of some markets being lost to the Eastern fields.

Q Yes. Now, that will affect the throughput, Mr. Cottle?

A That would affect the throughput, yes.

Q The 1939?

A Yes, sir.

Q Now, that brings me to another point. Part of the task of this Commission is to arrive at, or rather to enquire into the field price of crude, to undertake an Inquiry into the factors which enter into the determination of the field price and the factors which ought to be taken into account in fixing the field price, including, for example, the following matters insofar as they are relevant: prices in competitive fields; genuineness or otherwise of competition from such fields; a fair return upon capital

properly invested, having regard to the speculative nature of the business; and any other matter properly to be taken into account, and the fair and equitable field price which should be paid. As I understand it that is, in other words, in a few words, an examination into the propriety of a posted field price, is it not?

A Yes, that is a fair statement, I think. Into the present field price?

MR. FRAWLEY: What do you mean by propriety?

MR. NOLAN: Well, or impropriety. It says an enquiry into the fair and equitable field price which should be paid.

A Well, it is just as it says, Mr. Nolan.

MR. FRAWLEY: It purports to analyze that field price.

Q MR. NOLAN: To analyze that field price, all right. We know that the field price is $1.30 for 48 gravity?

A Yes.

Q That was the figure that was used. Supposing this Board comes to the conclusion that the field price should be reduced, will that affect the throughput of the pipeline?

A It may or it may not. If the purpose of the reduction is to expand the market available to Turner Valley crude it would affect the throughput. But the reduction may be for some different purpose altogether.

Q What other purpose could it be for?

A It may be for the purpose of retaining the present market or it could be for the purpose of adjusting some inequalities in the price, or for a variety of reasons that might be found upon investigation.

Q What I wanted you to tell me, if you can, Mr. Cottle, is whether fluctuations in the posted field price would cause fluctuations in the throughput of the pipeline?

A Not necessarily, Mr. Nolan. I cannot answer that in the affirmative with any definite certainty. It would depend upon the cause of the fluctuations.

Q Suppose the posted field price is increased, what effect, in your opinion, would that have upon the throughput of the pipeline?

A All other things remaining equal, if the price of crude to-day was increased, is that the proposition you are putting to me?

Q Yes?

A It would make it more difficult for the refiner to sell his refined products at present prices. In other words, it would narrow the spread between the refined products and the crude oil.

Q And if it were more difficult for him to market his products the market would be limited to that extent?

A Not necessarily. If the refiner is marketing refined products in an outside territory it would make it more difficult to market in that territory. It would make no difference whatever in the normal territory available to the field.

THE CHAIRMAN: Will you be some time, Mr. Nolan?

MR. NOLAN: No, just a minute.

THE CHAIRMAN: I do not want to hurry you.

MR. NOLAN: Perhaps we had better adjourn. I will only take a few moments in the morning.

THE CHAIRMAN: Gentlemen, you are keeping in mind

the things you are to produce. My thought is they should be done before we close this branch of the Hearing and that the closing of it will not be delayed because something is not ready that you have undertaken to produce. You will have that in mind?

MR. FRAWLEY: Yes, Mr. Chairman;

MR. NOLAN: Yes, my Lord.

(At this stage the Hearing was adjourned until 10:30 a. m. 14th February, 1939.)

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The Province of Alberta

IN THE MATTER OF THE PUBLIC INQUIRIES ACT

—and—

IN THE MATTER OF a Commission, dated the 12th day of October, A.D. 1938, to inquire into matters connected with Petroleum and Petroleum Products

Commissioners:

The Honourable MR. JUSTICE McGILLIVRAY (*Chairman*)

—and—

L. R. LIPSETT, ESQ.

Session:

CALGARY, Alberta FEBRUARY 14th, 1939

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VOLUME 36 - February 14th, 1939.

WITNESSES:

E X H I B I T S

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. . . . . .

MR. NOLAN: Mr. Chairman, I had not quite finished asking Mr. Cottle the questions I intended, if I may proceed.

THE CHAIRMAN: Yes.

FREDERICK GEORGE COTTLE,

having been recalled, examined by Mr. Nolan said:

Q Last night just before the adjournment, Mr. Cottle, I was putting to you what affect in your opinion would an increase in the posted field price have on the throughput of the pipeline and you said all other things remaining equal, if the price of crude today was increased, is that the proposition you are putting to me, I am reading from page 4382.

"A. All other things remaining equal, if the price of crude today was increased, is that the proposition you are putting to me? Q. Yes? A. It would make it more difficult for the refiner to sell his refined products at present prices. In other words, it would narrow the spread between the refined products and the crude oil. Q. And if it were more difficult for him to market his products the market would be limited to that extent? A. Not necessarily. If the refiner is marketing refined products in an outside territory it would make it more difficult to market in that territory. It would make no difference whatever in the normal territory available to the field."

I do not quite follow that, Mr. Cottle, so perhaps I might just go back, now if the field price is in-

creased, the posted field price is increased, would that in your opinion have any affect upon the throughput of the line?

A That is if the present price was increased.

Q Yes, take our price for 48 gravity crude, if it was increased?

A That would depend entirely upon the relationship between the present price of $1.30 and the price of Cutbank crude and the price of Illinois crude.

Q What you meant by saying "other things remaining equal", you mean if the prices of these competing fields remain the same?

A Yes.

Q And ours goes up?

A And the price of refined products remain the same.

Q And the posted field price goes up, what happens to the throughput?

A Well that would depend entirely upon the relationship between the present price of Turner Valley crude and the proper price of Cutbank, I mean by that Mr. Nolan, that it is possible that the price of Cutbank may be low in relation, may be high I mean at least in relation to the price of Turner Valley crude, in which case it would be possible for the price of Turner Valley crude to go up without in any way affecting the competition at Regina between the two crudes; if however the competitive relationship between the Cutbank crude and Turner Valley crude is very close then any change upward in Turner Valley would of course affect the competition at Regina.

Q And if it were very close and the competition at Regina was affected, what would that have to do with the throughput of the pipeline?

A Well depending upon the policy of the people using crude at Regina, it would have an effect on the pipeline.

Q Well what affect?

A An increase in price would perhaps have a tendency to restrict the consumption at Regina.

Q Yes, and then when you say "if the refiner is marketing refined products in an outside territory it would make it more difficult to market in that territory".

A Yes, I mean by that, Mr. Nolan, that an increased cost of crude at Regina would make it more difficult for a Regina refiner to ship refined goods Eastward.

Q Yes?

A With an increasing freight rate without an increase in refined products to compensate for it.

Q Yes, when you speak of an outside territory so far as refined products is concerned, what do you mean, you mean a territory---

A I mean a territory removed from the refinery where an increase in price above the price at the refinery point, that is the price of refined goods above the refinery point is not sufficient to take care of the increased transportation costs to that point.

Q Yes?

A An example of that is Southern Alberta where the tank waggon prices on gasoline, that is the prices on refined products gets lower as they approach the

Border and of course the cost of transportation to those points gets greater.

Q Yes?

A In a territory North of Calgary however the increase in prices of refined products is sufficient in all cases to take care of the freight from Calgary to that point so that no change in the price of crude would affect that situation.

Q Yes, but you seem to give the refiner what I might call "an inside" and "an outside" territory, how is that line drawn, I mean is there a certain territory that the refiner serves, you say "if the refiner is marketing refined products in an outside territory", outside of what?

A Well I used the word "outside" merely to indicate a removing from the refinery and a point beyond which the returns from the sales of refined products get progressively less.

Q In other words, it is the economic boundaries of the refinery?

A Yes, although there are several ways of speaking of "an economic boundary".

Q Yes?

A The economic boundary between two oil fields is quite different than the economic boundary in relation to refined products from a refinery, or may be.

Q When does the territory of the refinery become an outside territory, give that to me again?

A Well my conception of an outside territory in relation to a refinery is the territory in which

the sales of refined products give a lower netback than the sales in the inside territory.

Q Yes?

A Now by net-back I mean the realization from the sale of refined products at the refinery, deducting freight.

Q Yes. Now just one other question, assuming that the market in extent remains as it is in the Prairie Provinces, in your opinion will not the throughput of the pipeline be directly affected by the crop conditions which exist in the Prairie Provinces in the year 1939?

A On that assumption it would, I do not think that that is a proper assumption.

Q Why not?

A Because from the past on the figures as we know them, notwithstanding crop conditions annual consumption of gasoline has increased and is still increasing.

Q Steadily?

A Yes.

Q Through all the Provinces?

A I would say, yes.

Q You have brought some figures this morning on that?

A I have figures on the Province of Alberta.

Q Well have you any figures on the Province of Saskatchewan?

MR. FRAWLEY: I have wired for them.

Q MR. NOLAN: Perhaps I have them. This is not really mine but you have no objection if I put this in?

MR. FRAWLEY: No.

Q MR. NOLAN: Mr. Cottle, you are familiar with these publications, are you not?

A These are publications of the Department of Mines, Mines Branch, Ottawa, entitled "Petroleum Fuels In Canada; Deliveries for Consumption for the Calendar Years 1933, 1935, 1936 and 1937".

Q Yes, they are issued under the authority of the Department of Mines, are they not, of Mines and Resources?

A Yes, in co-operation with the Dominion Fuel Board.

Q MR. NOLAN: Were these the books you were going to get, Mr. Frawley?

MR. FRAWLEY: No, I wired this morning to the Gasoline Tax people in Regina and Winnipeg.

MR. NOLAN: I have not 1934, Mr. Chairman, but these are authoritative books, Mr. Cottle?

A I do not know the books at all, I have never seen them before but I would assume them to be authoritative.

Q Well have you any reason to doubt that the figures contained in them are accurate and correct?

A No, I have no reason. I do not know the sources of the information although that is no doubt shown in the tables given in these pamphlets.

MR. NOLAN: Well perhaps there will be no need to put them in if my friends will provide the Commission with these figures on gasoline consumption for the Province of Saskatchewan.

Q MR. NOLAN: How many years have you

gone back?

A In Alberta I have the statement in front of me for the calendar, for the fiscal years ending March 31, 1936 to 1939 inclusive. The 1939 being estimated by the Provincial Secretary's department.

Q What you are giving us is the trend over a three year period?

A For a four year period.

Q Well you are estimating 1939?

A I am not estimating 1939, no, the fuel oil tax people estimated the first three months of 1939. They have the complete figures for the high consumption period from April 1, to December 31, 1938.

MR. FRAWLEY: That may as well go in now, Mr. Nolan. I had that prepared this morning especially to put in and at the same time if there is anything in these Dominion Publications that my friend wants to call the attention of the Commission to, they can go in.

THE CHAIRMAN: I see no reason why they should not go in.

MR. NOLAN: No, they are published under the authority of the King's Printer and may they go in as one exhibit, there are four volumes, perhaps not, sir.

THE CHAIRMAN: We had better keep them separate.

MR. NOLAN: Yes, then there is---

THE CHAIRMAN: Of course if it is more convenient we can make them exhibits, supposing we

make them Exhibit 171, a. b. c and d if you have four or are there only three?

MR. NOLAN: I have four my Lord. The volume is entitled "Petroleum Fuels in Canada; Deliveries for Consumption for the Calendar year", and 171 (a) will be for the calendar year 1933; then for the calendar year 1935 will be 171 (b); (c) is 1936 and (d) is 1937.

(VOLUMES ENTITLED "PETROLEUM FUELS IN CANADA; DELIVERIES FOR CONSUMPTION FOR THE CALENDAR YEARS 1933, 1935, 1936 and 1937 HERE MARKED AS EXHIBITS 171 (a), (b), (c) and (d).)

THE CHAIRMAN: Was there something you wished particularly to call to our attention?

MR. NOLAN: If you will look at Table 2, sir, in each of these volumes and it appears in each instance on page 2, you will find the comparative figures for each of the Provinces from the years 1930 to 1937 inclusive. The figures given, sir, opposite the Provinces on that Table 2 are in million gallons as is indicated in the legend attached to it and the figures that I want to particularly direct your attention to were the figures for the Province of Saskatchewan. In the year 1930 the figure is 77 million; in 1931 it is 49 million; for 1932, 34 million; 1933, 32 million; 1934, 37 million, 1935, 39 million; 1936, 46 million and 1937, 46 million.

Q MR. NOLAN: Now Mr. Cottle, can you account to me for the drop between the year 1930 and let us say the year 1933, from 77 million to 32 million?

A I think it is a reasonable assumption that crop conditions in Saskatchewan caused that drop al-

though I do not know.

Q Yes?

A There has been a very uniform consumption since that period. I have never taken my figures back as far as the year 1933 and I was not aware---

Q You agree it is well to take them back if you are going to compare them. You were going to put that in and I will put it in for you if this is the time?

A Yes.

(STATEMENT PRODUCED HERE MARKED AS EXHIBIT "172")

Q Will you describe this to the Commissioners, please, Mr. Cottle.

A Exhibit "172" is a statement of the increase in the consumption of gasoline in the Province of Alberta for the years ending March 31, 1936, 1937, 1938 and 1939, 1939 being estimated.

MR. FRAWLEY: It indicates when the fiscal year ends, does it?

A Yes, March 31 in each year. The consumption, the taxable sales at least in 1936, for the year ending March 31, 1936 were 44,771,001 gallons; in 1937 the taxable sales were 56,840,407 gallons; an increase over the previous year of 12,069,406 gallons or 26.96%; the sales for the year ending March 31, 1938 were 67,235,895 gallons, an increase over the previous year of 10,395,488 gallons or 18.29%; the sales for the nine months ending December 31, 1938, plus the estimated sales

for the three months ending March 31, 1939, are 74 million gallons, an increase over the previous year of 6,764,105 gallons or 10.06%; the total increase in the year ending March 31, 1936 to the year ending March 31, 1939 being 29,228,999 gallons, an increase of 65.28%. Now it must be kept in mind that those sales represent the sales of taxable fuel oil as reported to the Department of the Provincial Secretary and prior to May 1, 1936, certain heavy tractor distillates and other heavy motor fuels were not taxable under this, the Fuel Oil Tax Act. Therefore the figures for the year ending March 31, 1936 do not include the sales of heavy tractor distillates so that the increase shown opposite the year 1937, of 26.96% is not an actual increase, may not all be an actual increase in consumption over the previous year.

MR. FRAWLEY: Mr. Chairman, while we are dealing with these Exhibits I suggest that a statement which came from Ottawa only this morning and which I am just showing to my friend now, may be filed because it shows the 1938 figures and those that my friend has just filed ended at 1937 and it might be a good place to put in this further Exhibit, which is a public publication of the Dominion Bureau of Statistics.

MR. NOLAN: And does it show the marketing of petroleum?

MR. FRAWLEY: Table 5 in this monthly report shows the monthly sales of gasoline in

Canada during 1937 and 1938 and it is Table 5 that I am directing attention to, on page 3 of this pamphlet, and perhaps the pamphlet had better be marked now, sir.

THE CHAIRMAN: Exhibit 173.

(PAMPHLET ISSUED BY THE DOMINION BUREAU OF STATISTICS PRODUCED AND HERE MARKED AS EXHIBIT "173")

MAJOR LIPSETT: What is the Saskatchewan figure for 1938, Mr. Frawley?

MR. FRAWLEY: That is just what I was going to call your attention to now, Table 5 and going at once to the Province of Saskatchewan the total sales of gasoline to the end of November only in the year 1938 was 63,234,000 gallons and the figure for 1937, to see if it checks with Mr. Nolan's, is 46,278,000.

MR. NOLAN: My figures are only given in the millions 46 million.

MR. FRAWLEY: That would be the comparison.

MR. NOLAN: Yes.

MR. FRAWLEY: 46,278,000 gallons for the year 1937 and 63,234,000 for the year 1938 to the end of November only, 63,234,000.

MR. HARVIE: I have been supplied with the figure for the year on Saskatchewan.

THE CHAIRMAN: For the year 1938?

MR. HARVIE: Yes, it is 76,147,790.

MR. NOLAN: As I was saying, sir, table 2 on page 2 of Exhibit "171" will give you the

history up to the year 1937 inclusive.

Q MR. NOLAN: Mr. Cottle, these figures of yours which have just been put in on this statement, of the increase in the consumption of gallons is based upon what, of information obtained from?

A From the Department of the Provincial Secretary, the Department which collects the Fuel Oil Tax and I presume that that is the source of the information appearing on these pamphlets. There is no other source that I know of for that information.

Q And then you say that there had not been taxes on tractor fuels and heavy motor oils?

A Not on heavy tractor distillates.

Q You say the sales of tractor fuels and heavy motor oils were not taxable prior to May 1, 1936?

A Tractor fuels which were not taxable prior to May 1, 1936 was what were then known as "tractor distillates", I forget the specific gravity.

Q Are the same fuels being taxed now that were being taxed on May 1, 1936?

A Yes.

Q Is there any change in the system of taxation?

A Oh yes, on May 1, 1936 all motor fuels became taxable.

Q Has there been any change in the category, the subject of taxation since May 1, 1936?

A No, not that I know of.

Q There seems to be such a wide variation in the figures, Mr. Cottle, I am afraid I do not understand them. I wonder if you would mind looking over this with me. In 1936, in your Exhibit "172" you show for 1938 44,000,00?

A That is for the fiscal year ended March 31st, Mr. Nolan. I presume these are for the calendar year are they?

Q Yes?

A Yes, these are for the calendar year, and that would account for some discrepancy.

Q In each year it would account for the discrepancy?

A Yes.

Q Your figures end the 31st of March, and these are for the calendar year?

A Yes sir.

Q Thank you, Mr. Cottle.

Q MR. FRAWLEY: Just dealing with that, Mr. Cottle, in the Province of Saskatchewan and in the Province of Manitoba, what petroleum products are taxable under the Provincial Gasoline Tax Act?

A As I understand it only the products which were formerly taxable in Alberta prior to May 1st, 1936, namely gasoline and light tractor distillate.

Q So that in the Province of Saskatchewan and the Province of Manitoba, heavy tractor distillates are not taxable at all, and do not appear, therefore, necessarily, in any of the figures which Mr. Nolan has given, or which I have indicated by Exhibit "172".

A That is my understanding, and the taxable gallonage figures given for the Provinces of Manitoba and Saskat-

chewan do not reflect the petroleum consumption in those Provinces.

Q You will observe on the Dominion Bureau Statistics, Exhibit "173" that it is found necessary to make a special note with respect to the Alberta gallonage to the fact it included 9,000,000 gallons, consisting largely of heavy oils and kerosene?

A In 1937?

Q Yes?

A Yes, to that extent the figures do not correspond with the other Provinces.

THE CHAIRMAN: Where is that special note?

MR. FRAWLEY: On Page 3 of Exhibit "173". Note C at the bottom, which is a note to the Alberta figure, which I did not read into the record because we have it here otherwise. But the note is "Includes 9,430,126 gallons consisting largely of heavy oils and kerosene." I simply call the Commission's attention to the fact that note was made for the obvious reason in the other Provinces these fuels and these products are not the subject of a tax at all. They are products of a refinery in any event?

A Oh yes.

Q They are products made from crude oil?

A Yes.

Q In the Provinces of Saskatchewan and Manitoba for the present at least, they are made from Turner Valley crude oil?

A That is right.

Q But they are not taxable. So that to give the Commission

a proper picture of the petroleum consumption, of refined product consumption in the Provinces of Manitoba and Saskatchewan it must be kept in mind that there is a considerable quantity of tractor fuels which do not appear in the gallonage figures at all.

A Yes. In explanation I said that the taxable gallonage sales in Saskatchewan and Manitoba do not reflect the total consumption in these Provinces. Variation in the taxable consumption, however, would indicate or would reflect a variation in the total consumption but the total consumption in Saskatchewan and Manitoba cannot be determined from the taxable sales figures.

Q Because under their system of taxing these annual figures which are in any of these Exhibits, these heavier products are not the subject of a tax at all?

A That is right.

Q But in this Province they are?

A That is right.

Q At least have been since May 1st, 1936?

A Yes sir.

Q Now Mr.Cottle, you told Mr. Nolan yesterday that you agreed with him.....

THE CHAIRMAN: Does the witness know anything about the year 1930?

MR. FRAWLEY: In.....

THE CHAIRMAN: In Saskatchewan. I was wondering was that an extraordinary crop year, Mr. Nolan?

MR.NOLAN: I do not know, sir. We have the figure but there is no explanation.

THE CHAIRMAN: Somebody must know some-

thing about 1930. It is not very long ago and some local farmer or somebody.....

MR. FRAWLEY: In any event it is probably worth my while communicating with Saskatchewan. I did not ask them for that at all.

THE CHAIRMAN: It seems to me such a remarkable jump there must be some way of accounting for it. I think, perhaps, that should be cleared up if it conveniently can be.

MR. FRAWLEY: Yes.

Q Mr. Cottle, Mr. Nolan was putting to you yesterday what would follow if the Imperial Oil brought into the Sarnia area, what is called the Sarnia area, what is called the Sarnia area in Manitoba, gasoline made at Sarnia from Illinois crude, and you agreed, made an obvious agreement with him that if that were done that this Province - our crude would have to lose that Manitoba area?

A Yes.

Q At this point, perhaps, Mr. Chairman, in view of that, to follow that up, I should now file a telegram which Mr. Nolan has handed to me this morning. This is a telegram from R. V. LeSueur, Toronto. It is dated the 10th of February, last Friday. It reads as follows:-

"Referring to your telegram of 9th instant advising Commissioners require definite statement of policy by Company in regard to evidence of James McGrath (stop) Company's settled policy is to use Turner Valley Crude wherever possible (stop) Because of competition from

"new Illinois production and so long as present conditions exist Company finds itself unable use Turner Valley Crude for supplying large part of Manitoba despite fact that we are producers in that field (stop) This will result in daily average reduction of requirements of Turner Valley Crude for Regina Refinery of approximately 2,850 barrels and in reduction in price of white products in portion of Manitoba so served (stop) Company's policy as to Regina Refinery is subject to similar economic factors based upon Montana competition but no definite policy has as yet been decided upon."

TELEGRAM IN QUESTION IS NOW MARKED EXHIBIT "174".

Q Well do you find the figure that Mr. LeSueur now gives us as a reduction, the daily reduction in Turner Valley requirements, do you find that figure in any of Mr. McGrath's charts?

A No, I do not. I find on Chart No. 3, however, the Sarnia Refinery territory set out at 2.649 barrels, and I presume from Mr. LeSueur's telegram that it is his intention to supply the Sarnia Refinery territory from Sarnia, and not to interfere at the moment with the territory which he would consider as belonging to the Cutbank field. He says "The Company's policy as to Regina Refinery is subject to similar economic factors based upon Montana competition but no definite policy has as yet been decided upon."

Q What do you take from that?

A I take from that that his figure of 2,850 barrels refers to the territory in Manitoba, that is competitive with Sarnia and Illinois crude.

Q You take it first of all from this telegram that insofar as the statement of policy, as far as the Company's definite policy is concerned, the Saskatchewan situation is being left as it is?

A That is my assumption from the telegram.

Q But that is going to displace Turner Valley crude in a certain portion of Manitoba with Illinois crude?

A Yes, in that portion where he calculates Turner Valley crude at present prices cannot compete with Illinois, economically.

Q Now, Mr. Cottle, we have pretty well now the policy of these two major purchasers in Turner Valley, purchasers and refiners. Will you now tell me to what extent these changed policies will affect in the whole of the year 1939 the whole of the through put of the Royalite pipe line? Give me your answer and then work it out?

A Well using Chart No. 3 as the basis for the assumption - that is Exhibit "142".

Q Better say what it shows as you go along.

A On Chart Number 3 it shows.....

THE CHAIRMAN: Chart No. 3 of Exhibit what?

A Being Exhibit "142". That is a computation of the average value of Turner Valley crude at the well for refining at Calgary and Refina refineries in competition with Cutbank crude at $1.00 for Calgary and $1.00 for Regina, and Illinois crude at $1.15 for Sarnia. On this chart the Sarnia Refinery territory

consumption in Manitoba and Western Ontario is estimated at 2.649 barrels per day for the year 1939. Mr. LeSueur indicates in his telegram that he intends to displace Turner Valley crude in that area, and presumably in a slightly larger area, extending further Westward, totalling 2,850 barrels. The total estimation of Imperial Oil's consumption in the entire Prairie Province area represented by the three coloured portions on the map, Exhibit "142", totals 13,766 barrels per day.

Q 13,766?

A 13,766 barrels per day. Now that, Mr. McGrath stated, was the Imperial's estimate of their requirements in that territory in that year. Mr. LeSueur now tells us that of that total market 2,850 barrels of Illinois crude will be used to displace Turner Valley crude, leaving a consumption for Imperial Oil in that territory to be supplied from the Turner Valley crude to the extent of 10,916 barrels per day. On Exhibit "165", being the map submitted by Mr. Woolley, on behalf of the British American Oil Company Limited, the economic line between Turner Valley and East Texas is shown, and the consumption in the respective territories for the year 1938 is shown in a note on the map. On this Exhibit no attempt has been made to estimate the 1939 consumption as has been done by Imperial Oil on Exhibit "142". But the actual consumption in area "B", which is the smallest area which Mr. Woolley assigns to the Turner Valley field was 1,600,000 barrels for the year 1938. Assuming that that consumption for 1938 will be realized ih

1939, we may add that figure to the figure I have computed for Imperial's area assignable to the Turner Valley field.

THE CHAIRMAN: One million and how much?

A 1,600,000.

Q Yes?

A 1,600,000 barrels per year is an average of 4,384 barrels per day.

Q 1,600,000, what is that?

A 1,600,000 per year, which is the consumption estimated for area "B" on Exhibit "165" is equivalent to 4,384 barrels per day.

Q Yes?

A Adding that quantity to the remaining portion of the Imperial market we have a total of.....

Q To Imperial?

A Imperial's being 10,916 barrels per day, my previous calculation, the total consumption which Imperial Oil has estimated for the year 1938 for their own requirements, plus B.A.'s requirements, actual requirements in the year 1938 which will be assigned to the Turner Valley field in 1939, is 15,300 barrels per day. Now in addition to the requirements of Imperial Oil Limited, and British American Oil Company Limited, there are other refineries in Saskatchewan and Manitoba and in fact in Alberta who, last year....

THE CHAIRMAN: There is certainly one in Alberta we have heard of.

Q And who use the pipe line. One of these refineries is

records of the Petroleum and Natural Gas Conservation Board I would estimate the North Star requirements, assuming that that Company continues to take Turner Valley crude, and I have no indication at the moment that they will not so continue, their requirements would total, I would think at least 300 to 500 barrels per day.

Q MR. FRAWLEY: What do you want to use, 400?

A I can get the actual figure later, but I would assume 400 is a very safe estimate.

THE CHAIRMAN: You stay with the horse-back figures.

MR. FRAWLEY: We cannot put in both 300 and 500.

MR. NOLAN: That won't give us a horseback figure, that machine?

A 400 barrels per day is a very conservative estimate of that Company's consumption. Then there is a refinery at Brandon owned by the Anglo-Canadian Oil Company.

THE CHAIRMAN: The North Star is at Winnipeg?

A At Winnipeg, yes sir. There is a refinery at Brandon owned by the Anglo-Canadian Oil Company and I do not think the Anglo-Canadian Company has any interest in any other field, and I think they would be very anxious to use exclusively Turner Valley at Brandon. That was their purpose in acquiring that refinery, and Brandon is within the economic territory shown on both of these

Exhibits "142" and "165" attributable to Turner Valley. I do not know the Brandon requirements offhand, but I think the total requiremonts in Saskatchewan and Manitoba, exclusive of the North Star Oil at Winnipeg, would be upwards of 1000 barrels per day.

Q THE CHAIRMAn: From the Anglo-Canadian?

A No, for all others including Anglo-Canadian. There are others at Regina and several different points in Saskatchewan.

Q How much, 1000 barrels?

A I would estimate at least 1000 barrels per day, in addition to 400 barrels per day for the North Star Oils. I can obtain the actual consumptionn of Turner Valley crude at each of the refineries in Saskatchewan and Manitoba for the year 1938, and if you wish it, Mr. Chairman, I will file it later. But on this assumption the total consumption would be.....

Q What about Lion Oils?

MR. PLOTKINS: He has not got to Alberta yet.

A Exclusive of any other refinereiss in Alberta, including Lion Oils, the total consumption is 16,700 barrels, all of which would be transported over the pipe line. In addition to that figure there is Lion Oils and other refineries in Alberta which have not as yet used the pipe line, but which may in the year 1939. Their requirements have been supplied by truck from Turner Valley. Lion Oils will bring the figure based upon the Imperial estimate of their requirements for 1939

to at least 17,000 barrels per day, which is more than the actual pipe line through put of 1928, that was, if my memory serves me rightly, about 16,500,barrels per day.

MR. FRAWLEY: That is fine. Now I think that is all I want to ask you, Mr.Cottle?

A These calculations, I may say, are made on the assumption that.....

THE CHAIRMAN: That is not right is it. The through put was not 16,000 barrels per day?

A 16,500.

Q The production was 16,500 wasn't it?

A The through put included Turner Valley naphtha and absorption naphtha.

MR. FRAWLEY: I am reading from Exhibit "95". The top part of the Exhibit shows the production and the bottom psrt the pipe line deliveries, and all crude oil pipe line deliveries daily average 15,248, and of absorption and separator naphtha 1,155, or a total in barrels per day of pipe line deliveries of 16,403.

THE CHAIRMAN: That is Exhibit "99"?

MR. FRAWLEY: Exhibit "95". The same exhibit shows the production of crude oil at 16,507, which is a very close figure and that is perhaps where the confusion arises?

THE CHAIRMAN: Yes.

MR. COMMISSIONER LIPSETT: In that particular Exhibit Mr. Frawley, the December was estimated only was it not?

MR. FRAWLEY: That is correct.

MR. COMMISSIONER LIPSETT: You have to correct your figure somewhat.

A I can correct the figure for December. I can assure the Commission that that estimate is very accurate. But I will put in a new exhibit.

MR. FRAWLEY: We can put in the correct column both as to production and pipe line deliveries. That is the figure you realize that has been used. It might be as well, of course, to put down beside it the actual experience.

MR. COMMISSIONER LIPSETT: Is it pretty close?

A It would be very close, very close indeed. In addition to what I have said the British American Oil Company used a quantity of crude oil at Coutts in 1938 due to a shortage of refining capacity in Calgary during the peak season, and I do not contemplate that that contingency will arise again. So that there is some crude consumption in the year 1938 which did not go through the pipe line in that year, and which may go through in this year., I have not the exact figures of that movement.

Q THE CHAIRMAN: What movement is that?

A A movement of crude oil from Montana to Coutts during the peak season last year, in August and September, refined at Coutts due to lack of capacity, refining capacity in Calgary. And that contingency will not arise again in 1939 because a new refinery is now under construction and I am assuming the British American Company will not use Cutbank crude in that way in 1939. I base that assumption on Mr. Woolley's remarks when he was testifying when he said that

he assumed that the price of crude in Turner Valley would do whatever was necessary to keep Cutbank out of the Saskatchewan market.

MR. COMMISSIONER LIPSETT: On that point, Mr. Cottle, that would not increase the 1,600,000 estimate you have already used?

A No, that is right.

MR. COMMISSIONER LIPSETT: Because the 1,600,000 is the total consumption in the area B?

A Yes, that is right.

MR. COMMISSIONER LIPSETT: Area A-1 and B?

THE CHAIRMAN: Oh no.

MR. COMMISSIONER LIPSETT: It is the total of the three last year, A, A-1 and B.

MR. COMMISSIONER LIPSETT: The total in Area B is 1,600,000.

A That is quite right, Mr. Harvie, the 1,600,000 includes that movement from Montana last year.

Q As you understand the information 1,600,000 does include A-1 area on Mr. Woolley's map "165".

A No, as I understand it the 1,600,000 includes what was originally shown as B less A-1. A-1 of 45,000 is in addition to that. B is 1,645,000. I have taken the smallest area which is from here, across.

Q B goes to where East Texas crude meets and not where Illinois crude meets?

A Yes.

Q It does include the A-1 area?

A That is right.

THE CHAIRMAN: I think Woolley explained that.

MR. HARVIE: Yes I think so.

MR. HARVIE: Yes, I think so.

Q Mr. Cottle, in Exhibit "95" it shows the total yield from Turner Valley of 6,025,048 barrels?

A May I have a copy of the statement?

(Statement produced to witness.)

A Yes.

Q Of crude oil and of all products from Turner Valley of what?

A 6,675, 965 barrels.

Q Now, for the year 1938 would you say that did supply all the requirements of the Prairie markets or not?

A No, it did not. The Exhibit I submitted yesterday shows the total of the requirements, of which I have any knowledge.

Q Exhibit "170", and how much in addition to that figure, how much additional crude was brought in to the Western markets?

A 1600 barrels per day, or, is this your calculation?

Q Yes?

A In addition to the Turner Valley and other Alberta fuel production there were imported into Alberta, into the Prairie Provinces, 573,145 barrels of crude oil and casing head.

MR. PLOTKINS: Which Exhibit Number is that, please?

MR. HARVIE: Exhibit "170".

WITNESS: And there were further importations of motor fuel, totalling 452,610 barrels.

Q MR. HARVIE: Just what do you mean by motor fuels?

A Gasolines and tractor distillates.

Q It is a fuel which would normally be supplied from Turner Valley crude?

A Oh, yes, quite.

Q So giving you a total consumption in the Prairies that was imported?

A 1,025,755 barrels.

Q MR. FRAWLEY: You are not adding crude to gasoline, are you?

A Yes.

Q MR. HARVIE: We might eliminate that last figure, I think, for the moment, if your Exhibit "170" shows it.

A What was your question?

Q My question was just as you answered, I think, Mr. Cottle, but the total of imports?

A Of crude?

Q Yes, I think we had better break that down in two ways, of gasoline and crude oil, so there is, there was actually imported into the Western markets 573,145 barrels of crude and.....

A And casing-head, the figure I read, I have not the Exhibit before me.

Q Casing-head is an unfinished product which is used in making a motor fuel?

A Well, I would say it is a finished product but is not used.....

Q It is not sold?

A That is, it is used as a binding product to increase the volatility of gasoline.

Q It is not sold as a finished product?

A No, not the casing-head, which was imported.

Q In addition to that crude there is a considerable importation of refined products?

A Yes.

Q Do you know what they were?

A The figure in that Exhibit, if you will just stand over

here, Mr. Harvie.

Q That is in barrels?

A There were imported during the year 1938 452,610 barrels of motor fuel.

Q Do you know how much of that to Alberta?

A No, I have not the figures here. I can find out how much of that is Alberta.

Q I am going to suggest a figure.....

MR. FRAWLEY: Do you want that?

THE CHAIRMAN: You are looking at Exhibit "170".

MR. HARVIE: Exhibit "170", although the figure I am taking now is not from that.

Q MR. HARVIE: My information is, Mr. Cottle, that the 1938 sales of refined products manufactured from Montana or brought in manufactured from Montana or other points were 13,465,631 gallons.

A From memory I think that is approximately correct.

MR. FRAWLEY: That figure is pretty readily obtainable.

WITNESS: I have it in my office right at my finger-tips, if that is not approximately correct I will correct it.

Q MR. HARVIE: Yes. That is, I might say, I obtained that from the Government records. Now, what percentage would that be of the total offerings in Alberta?

A Of the total?

Q Of the Alberta importations, the total offerings I think they call it, in the trade, the total consumption in Alberta, the total offerings, do they not?

A Well, I have not that figure.

Q I thought it was put in this morning, was it not?

A There was a figure in this morning for the taxable sales in Alberta.

Q I give you the figure of 78,322,772 as the figure I got from the Government within the last day or two as the total consumption in Alberta.

MR. FRAWLEY: For what period?

MR. HARVIE: For 1938.

MR. FRAWLEY: Well, you cannot really, you couldn't have it, Mr. Harvie, because the figure from the fiscal year, or to the fiscal year, is available only, and that is why they estimated it to the end of March, 1939.

MR. HARVIE: I did get it.

WITNESS: Mr. Harvie is suggesting a figure to me which he says he obtained from the Department.

MR. FRAWLEY: Quite, and I just want to know.....

MR. HARVIE: If the figure is not correct you can check it, Mr. Frawley.

MR. FRAWLEY: I am sure you are offering the right figure and I was just wondering if it was a figure for the calendar year.

Q MR. HARVIE: Take that figure of 78,322,772.....

A What is the first figure?

Q 13,465,631?

A And the total figure?

Q 78,322,772?

A 17.2%. I wish to point out though, Mr. Harvie, that the importation figure you had of 13 million odd includes a substantial quantity of gasoline imported through the port at Coutts and, therefore, shown as importations into Alberta, which are really consumed in Saskatchewan.

Q No, I think not, I will give you that figure too, I mean that figure is destined to Alberta points.

A Destined to Alberta points?

Q Yes, my point, you gave me 17.2%?

A Yes.

Q Now, the effect, if those figures are correct, the effect is that actually to-day 17.2% of the market in Alberta is being supplied from other than Turner Valley?

A Assuming the accuracy of your figures, yes, that is correct, Mr. Harvie, but that is not my interpretation, however, of it, but I would like to look at my figures.

Q If I have the wrong figures?

A Yes.

Q That would be what you would call a substantial volume of Alberta business?

A I would say so, yes.

Q And if that is the case it might tend to show that there is really a real competition from Montana?

A Well, it might or it might not. A substantial proportion of the imported gasoline is imported by one company.

Q Does that make any difference?

A I think it should make a difference, yes.

Q What difference could it make?

A Well, that particular company owns its own production in Cutbank.

Q True, but it is a part of the Alberta market, no matter where it comes from or who owns it or anything else?

A Yes, it is.

Q And, therefore, it is competition?

A It is competition, yes.

Q THE CHAIRMAN: Which company are you speaking about?

A The Texas Company of Canada, Limited.

Q MR. HARVIE: I am just suggesting to you

that without any theories or anything else, that if those figures which I have given you are correct, there is a substantial competition existing to-day from Montana, to the extent of 17.2% of the total business in Alberta?

A There is definitely a competitive relationship between the refined products in Alberta and refined products in Montana, that is really what your suggestion means?

Q No, I will just have the Reporter read my question and you might reply to it.

(REPORTER - reading:) "Q I am just suggesting to you that without any theories or anything else, that if these figures which I have given you are correct, there is a substantial competition existing to-day from Montana, to the extent of 17.2% of the total business in Alberta?"

A In refined products, yes, Mr. Harvie.

Q Do you make any distinction between, as far as the results, between refined and other products?

A Oh, I think so, if you said there was a competition in crude I would not agree with you.

Q Well, is it not competition with crude if the market that Turner Valley crude would normally supply is supplied by refined products from outside sources?

A Will you read that question, Mr. Cutler?

(REPORTER - reading:) "Q Well, is it not competition with crude if the market that the Turner Valley crude would normally supply is supplied by refined products from outside sources?"

A It reduces the market for Turner Valley crude by that much? The importation reduces the market for Turner Valley crude that much, yes.

Q I am also going to give you a figure which you might also check in connection with Saskatchewan.....

Q THE CHAIRMAN: Do I understand, Mr. Harvie, that the suggestion is that this 17.2% from outside sources affects the figures which Mr. Cottle has given?

MR. HARVIE: No, it does not affect those figures at all but it does establish.....

THE CHAIRMAN: I did not think so, but I wanted to make sure.

MR. HARVIE: But it does establish the fact, I think, that we are to-day faced with actual competition to that extent, 17.2% of our market.

THE CHAIRMAN: But Mr. Cottle's figures stand in spite of that?

MR. HARVIE: Yes, that would be in addition. It might be explained this way, I think, that the total offerings or the total market in Alberta is 78 million odd of which 13½ million odd were supplied from outside the Province by importation.

THE CHAIRMAN: Didn't Mr. Woolley say, I do not just recall at the moment, that the B. A. owned production in the Montana field, or not?

MR. HARVIE: Well, they do, and I think he did say so.

THE CHAIRMAN: Yes.

Q MR. HARVIE: I also have the figure of the sales of Montana products in Saskatchewan as being 2,725,230 actually?

A Yes, I would have to look that up.

Q If that figure is not correct or approximately correct you will let us know?

A Yes.

MAJOR LIPSETT: That is the figure for what, Mr. Harvie?

MR. HARVIE: For the sales of refined products in Montana, in Saskatchewan from Montana, imported from Montana.

WITNESS: Would you mind, Mr. Harvie, telling me what the source of your information is, that will facilitate my search.

MR. HARVIE: I have the information but I will have to supply it to you, I have not got it right with me just now.

A All right.

Q So there is the possibility that if this 17.2% of the Alberta market is available, that a reduction in price of Turner Valley crude might help in meeting that competition?

A No, not at all in that alone. It requires a reduction in the price of refined goods to meet that competition, that is why I said that there is not necessarily a competition in crude between Cutbank and Turner Valley.

Q We have no figures here on refined products or anything else so far as this Commission is concerned to date?

A That is quite right.

MR. FRAWLEY: We have the tax figures.

MR. HARVIE: Yes, but we have not been dealing with either the marketing or the refining end before the Commission.

A That is quite right, Mr. Harvie, but you said a reduction in the price of crude oil in Turner Valley would have an effect to keep these importations out of Alberta.

Q Yes, if the reduction was passed on to the consumer?

A If the price of refined products is reduced, quite apart from what happens to the price of crude it will have the same effect.

Q Yes, quite so, but that is not the question I am asking you.

We are not now on the point which I presume you are trying to make, if the present refiner and distributor did waive a part of their profit in the refining business, that that competition might be met, I am not suggesting that, but I am suggesting if it was all met by a reduction in the price of crude and leaving the profits or losses in refining and marketing as they are?

A Well, confining myself to your answer, a cut in the price of Turner Valley crude would have no bearing in itself upon the importations of refined products from Montana.

Q It would put the marketer in a position, possibly in the position to cut his price to compete with that?

A His price on.....

Q Refined products?

A Yes, it would.

Q So it would have that effect anyway?

A Yes, it would have that effect.

MR. HARVIE: That is all, I think, thank you.

THE CHAIRMAN: Mr. Harvie, you will be covering it in argument anyway, but while it is present in my mind can you tell me why it would not advantage your client, the British American, as much to have a reduction in transportation costs as in the price to the producer?

MR. HARVIE: It would, Mr. Chairman, and so far as we are concerned in the statement which I propose to file we propose to cover that point. In other words, everything by way of a reduction in cost helps our company, be it in pipelines, be it in crude or be it in the freight rates, so long as it is done on a sound and economic basis, but there are a lot of points which arise in the marketing which I think will become apparent, that

very often distort the first picture which you get, there are other problems which come in, for instance, just a cross-section cut on Turner Valley crude is not necessarily the answer and that will be shown in the statement too, I think.

THE CHAIRMAN: You are speaking now of the brief that you will present?

MR. HARVIE: No, not the brief, the statement that you asked Mr. Woolley to file in connection with what cut would be required in Turner Valley crude to supply the 225,000 barrel market that was apparently lost.

THE CHAIRMAN: That was the rough estimate you were getting us?

MR. HARVIE: Yes.

MAJOR LIPSETT: Mr. Harvie, just following that up, any reduction that enables you to obtain, rather that might be obtained by your company, would presumably help to defeat this 17.2% of importations?

MR. HARVIE: That is very true.

MAJOR LIPSETT: And would that in turn, insofar as that competition is eliminated, that would tend to increase the throughput of the pipeline, would it not?

MR. HARVIE: Quite likely.

THE CHAIRMAN: There is no other place from which to get it.

MR. HARVIE: I mean so far as we are concerned the greater the throughput of the pipeline, that is on a fair and correct figure, possibly the cheaper the rate should be, and which we would be very glad to see. While, on the other hand, I think these factors should be put before the Commission so that they will have all the

information and if the pipeline rate should go up, fine, and if they should go down, fine, and it is better for us.

MAJOR LIPSETT: An increase in the throughput is for the benefit of everybody?

MR. HARVIE: Yes, including ourselves.

MAJOR LIPSETT: And including the Royalite?

MR. HARVIE: I do not think that you should take what might be inaccurate figures in estimating the throughput.

MAJOR LIPSETT: I am only dealing with the importation figures.

MR. HARVIE: Yes.

THE CHAIRMAN: All right.

MR. FRAWLEY: That is all, Mr. Cottle,

THE CHAIRMAN: Any questions?

MR. PLOTKINS: I have some questions.

Q MR. PLOTKINS: Mr. Cottle, you stated yesterday, speaking for the Conservation Board, I think, of which you are a member, that any orders or action of your Board would not restrict production, at least not below the 1938 figure, is that a correct assumption of what you said yesterday?

A Would you read that, Mr. Cutler?

(REPORTER - reading:) "Q Mr. Cottle, you stated yesterday, speaking for the Conservation Board, I think, of which you are a member, that any orders or actions of your Board would not restrict production, at least not below the 1938 figure, is that a correct assumption of what you said yesterday?"

A Yes, that is correct, Mr. Plotkins.

THE CHAIRMAN: It is hardly precisely correct.

You said you had no reason to believe, or you did not anticipate that that would be so?

A Yes, that is right, sir. I gave an explanation of my reasons for saying so, which were.....

Q That was your best opinion?

A Yes.

Q MR. PLOTKINS: So your Board does intend to continue on the assumption from what you said, for the whole of 1938, regulating production of Turner Valley wells, to fill the market nominations of the refiners and purchasers of crude?

A To fill the market nominations?

THE CHAIRMAN: Yes, up to the point, if you stay with his evidence, up to the point where market requirements do not lead to an inefficient operation of fields, that was his whole answer.

Q MR. PLOTKINS: That is what I was coming to.

A We intend to permit the field to produce as much oil as anyone is willing to take from the field up to the point where waste will not be incurred.

Q Yes. Now, just let us analyze that position of yours. At the present time you pro-rate production to current demands, current nominations?

A Yes, that is correct I think.

Q You gather information from the refineries and purchasers of crude and you say for a certain period "We will set the field allowable at so many barrels a day"?

A Yes.

Q And that means then that you only allow sufficient production from time to time to cover the immediate needs, is that a correct assumption?

A Immediate needs, has a different implication, we allow the field to produce as much oil as any person will, desires to take from the field. You said we pro-rate to the demand, we do, incidentally.

Q So that if the situation again presents itself, as it did last Summer, where the companies, I am going to make that assumption because I think it is a correct one?

A Yes.

Q Miscalculated their requirements for the peak season?

A Yes.

Q And suddenly made a demand on the Board for quite a lot of crude over a period when the Board issued an Order to supply that demand and then found that the field could not supply it efficiently, would not that same situation again arise this year if the conditions were similar?

A If it arose in 1939 to the same extent as it did arise in 1938 it is the opinion of the Board that the wells now in production are capable of producing up to that demand without waste.

Q Without waste?

A Without undue waste.

Q Well.....

A I mean no well can be produced at all without waste, so perhaps I might say "undue waste".

Q What you mean by "undue waste" is within the limits that you set as not wasteful?

A Yes.

Q That is right. Well, now, on what facts do you base that assumption that you will be able to allow us, that there will be sufficient wells with sufficient potential production in Turner Valley that you can supply the maximum peak

demand without any waste, still qualified by your assumption?

A I base that statement, Mr. Plotkins, on a study which the Conservation Board has made of the factors pertaining to the wells which are now in production as compared with the wells which were in production during the peak demand of 1938, and as a result of that study the Board is of the opinion that the wells which are now in production, even ignoring the wells which are now drilling and will presumably be in production by the time the peak period arises in 1939, can produce sufficient oil to meet that demand without any undue waste.

Q That is at present, that is the Board's considered opinion?

A That is the Board's considered opinion.

Q Yes, but if its opinion turned out to be wrong, that there is a bigger crop, because last year you will admit, I believe, that while there was a good crop it was not uniformly good all over the three Western Provinces, that is correct, is it not?

A I have no definite knowledge of that, Mr. Plotkins.

Q No, but assuming if we have, and as we have had in the past, a good crop over the greater area of Western Canada, and that the consumption demand, as was pointed out this morning in Saskatchewan, jumps to almost double, what would be the position of your Board if it was suddenly faced with that situation?

A Well, that would depend upon how great that situation is, Mr. Plotkins.

Q How great?

A Yes.

Q You have no means at this stage, at this time, of knowing what could possibly be the situation in July or August?

A No, I do not agree with you, Mr. Plotkins. We know what the peak demand was last year and we know what the consumption figures have been in the previous years during those months, and we can make a reasonable assumption that the peak demand next year will not be three times as much as the peak demand last year, and by the same reasoning not twice as much as it was last year, but within any reasonable limit by comparing this last year, the Board is of the opinion that the peak demand can be met.

Q Can be met?

A Yes.

Q Would you be in a position to tell us the assumption which you have made as to the probable increase which you were guided by in making this considered or giving this considered opinion?

A In giving this considered opinion we considered 28,000 barrels as being the peak last year.

Q Yes?

A And we took into consideration also the fact that that peak was a combination, was the result of a combination of two factors last year, one was an underestimate of the capacity of the wells at that time, the flow on the part of the purchasers of oil and the further underestimate, or an overestimate, rather, I should say, of the capacity of the wells to flow, and an underestimate on behalf of the same people, namely, the purchasers of oil, of the demand at that time, but notwithstanding that the Board is of the opinion that the field can produce without waste sufficient oil to meet the situation that arose last year if it arises to the same extent in the coming year, and, indeed, it is also of the

opinion that the field will be in a position to produce even more oil than was demanded of it last year, if the need arises. How much more I am not prepared to say.

Q You are not prepared to say?

A No.

Q You say that the reason, that the situation that arose last Summer was an underestimate of, or an overestimate rather, on the part of the purchasers of crude to guage correctly the flow, the efficient production of the wells at that time in existence?

A At that time, yes.

Q Now, is not the Board charged with that duty of determining those things?

A It is.

Q You do not leave it to the purchasers, you are in control of that?

A Well, Mr. Plotkins, you realize the Board was not constituted until July 1, last year, and the Board did not issue a proration order until September 2 last year, and the peak demand occurred on August 15th of last year.

Q So that at that time you were not in a position?

A At that time we had no staff to make investigations of the factors involved in such matters.

Q MAJOR LIPSETT: At that time was there not a statutory duty to pro-rate, according to market requirements, not to the position of a reduction from the wells?

A No, I would not say so, Mr. Commissioner, at that time, it was our intention, our primary intention, to prevent waste.

Q But I thought there was a difference in the Act then, perhaps it is not material.

A There is a difference in the Act, yes, the Act at that time said to prevent waste and also to preserve the equity in the field and give each producer a fair share of the market. The present Act has no such language but the intention of the previous Act was primarily to prevent waste.

(Page 4426 follows.)

F. G. Cottle.

Q How long did that peak demand continue last year, Mr. Cottle, do you recall?

A From August 15th until September 24th. The peak demand rose from 22,000 barrels to 28,000 barrels, August 15th, and it was reduced to 21,000 barrels September 24th.

Q Your Board did not issue an order on August 15th to raise the allowable to 28,000 barrels?

A No. We issued a permissive order, which actually had no effect, but we issued a permissive order permitting the pipe line company to increase its pro-ration percentage from 31% of 2/3 of the open flow to 48% of 2/3 of the open flow, merely a temporary measure over which we exercised no control.

Q From September 2nd it was at that time, your order was at that time based on your knowledge of the facts that existed in Turner Valley?

A That is right.

Q So that if the primary purpose is, as you just tell us, was to prevent waste, why didn't your Board take steps to see that these wells were not producing in a wasteful manner.

THE CHAIRMAN: Now, are you bearing in mind, Mr. Plotkins,.....

MR. PLOTKINS: I am coming to the pipe line because it has a big effect on the pipe line, Mr. Chairman.

THE CHAIRMAN: All right. The Board is not on trial here. As long as we tie this in with the pipe-line it is all right.

MR. PLOTKINS: Yes, I realize that.

A At the time we issued the pro-ration order on September 2nd, we did not have sufficient information concerning the wells to know that undue waste was being created, and I am not saying now that undue waste was created.

Q Did you amend that original order?

A We amended the original order on September 12th, because using the formula which we did, and which we still use, a number of the wells were unable to produce the allowables that we had allotted to them, so we re-assigned those allowables to wells that were capable of producing them, on September 12th.

Q Would you dispute the fact that a large number of wells in Turner Valley, in order to produce the allowable assigned by the Board ran wide open, without any consideration to gas oil-ratios or any other economical methods of producing, or efficient methods of producing?

A No. You carried your question too far, Mr. Plotkins. I will agree with the first part of it but not with the second.

Q The first part that it was wide open?

A That some wells were running wide open at that time. But that does not mean that those wells were creating a waste. That in itself does not mean that.

Q That does not mean in itself that it is a wasteful method of operation, is that what you just said?

A No, not in itself.

Q We will leave that for the time being. What is the Board's estimate of the carrying capacity of the Turner Valley pipe line of the Royalite Oil Company?

A We have made no estimate of the maximum capacity.

F.G.Cottle.

I understand that around 30,000 barrels may be carried over it?

Q You have made no estimate....

A No, we have had no reason to consider the question.

Q So if, as a result of your pro-ration orders in this year 1939 you have miscalculated the demand, or you have been wrongly informed - that is probably the proper way to put it - by the purchasers of crude, because you will probably agree that your pro-ration order is based on whatever figure the refinery company tell you their probable purchases of crude may amount to?

A Yes, that is right.

Q You have no organization, no technical staff, that is at the present time engaged in accurately gauging the market from time to time?

A We have no need for any such technical staff. We have a staff depending upon what you mean by technical. We are not in the business of buying oil, and for that purpose we cannot say how much oil is going to be used.

Q But you are in the business of regulating production in Turner Valley to market?

A No, we are not.

Q You are not. Oh. Then what do you call this system or this method of ascertaining what the refineries will need for a given period and then totalling that figure and then saying, in issuing the order to the Turner Valley producers,"this is the maximum production that we will allow you to produce until further orders?"

A You mean why do we find out how much oil is going to be used before we issue a pro-ration order?

Q No, you just told us that your concern in issuing these orders was not the question of pro-rating the production to market.

A No, I did not say that, Mr. Plotkins.

Q What did you say?

A You asked me if we were in the business of pro-rating to market and I said "No, we are not."

Q You actually do pro-rate to market requirements?

A It is true that we find out how much oil is going to be required of the field by the people in the business of taking delivery of that oil when we make a pro-ration schedule for the very obvious reason if we did not do that our orders would be quite inoperative. It would be useless.

Q Quite inoperative in what way?

A In this way. We can take the example of the last order that we issued on February 1, or at least January 31. We had an order in effect which permitted all of the oil wells in Turner Valley to produce 12,500 barrels per day. Each well was given its share of that total production. On February 1st, we issued a new order changing to 10,000 barrels per day. By February 1 the order providing for 12,500 barrels which had been issued on December 5th, I think, the demand or at least the allowable provided for on the December 5th order totalled 12,500 barrels had increased between December 5th to February 1st by special allowables given to new wells coming into production, with the result that the total allowable for the field was something over 13,000 barrels odd. Now let us consider for a moment what would have happened had we not issued our order of

February 1 reducing the field allowables to 10,000 barrels per day. Had we not reduced that total field allowable one of two things would have happened, or both of them would have happened. In the first place the people who required the oil, who had any need for oil and who had any intention of taking any oil from the field, but who did not want to take the 13,000 odd barrels per day from the field, would simply reduce their takings from the field with the result that our pro-ration order would have been superimposed by a pro-ration order by the producers of crude. Or, the producers of the crude would have purchased oil from wells that they chose to purchase from up to their allowables, leaving a good number of the wells with no people, no purchaser of their oil, with the result that their wells would not be producing beyond the capacity in the storage tanks on their leases. With the result there would be an unrateable withdrawing of oil out of the underground reservoir which in the opinion of the Conservation Board is not in line with proper conservation.

Q So that all you have just said means this, that due to new wells coming in - I want to understand that right.....

A Yes.

Q You temporarily allowed these new wells.....

A Partly due to that.

Q To produce apart from your regular nomination or your regular maximum figure, and as a result of allowing these new wells to produce you exceeded the nomination of the refineries and temporarily had built up storage so that you were forced to recognize the situation and adjust

it. That is what you mean?

A Not altogether, Mr. Plotkins. That is a pretty long question. What I mean is this, the total field allowable immediately prior to our last order was 13,000 and some barrels per day. That daily allowable we found was much more than the purchasers of crude were prepared to take from the field, and therefore, either we had to depart from our allowable schedule or some other person would ihtroduce another allowable schedule and we want our allowable schedules to be operated, therefore, we reduced them to the amount of oil which we know is going to be taken from the field.

Q So that if some situation arose this coming summer and you had misjudged for the time being the situation, and you were faced with 32,000 or 33,000 barrels per day of a demand for a short period.

A In which month, Mr. Plotkins?

Q In any month, of the peak season.

A It makes a difference which month?

Q Yes?

A Because we are going into the future, and the further that month is away the more wells will be completed in the meantime.

Q We will assume you can produce 34,000 barrels, will the pipe line be able to carry that much?

A I do not know.

Q You do not know?

A That would be the pipe line's problem.

Q You see last year for quite a long period, at least to the best of my information, I understand the pipe line ran to full capacity.

A Mr. Plotkins, I am not testifying concerning the pipe line. My statement was the orders of the Conservation Board in themselves would not restrict the production of the Turner Valley field during the year 1939, because the Conservation Board is of the opinion that the wells now in production and the wells which will likely be in production by the time the peak demand arises, will quite capably supply that peak demand. That is the Conservation Board's opinion. I am not saying that the pipe line may not restrict the market.

Q All right. So that if the pipe line did restrict all the refineries would do just what they did last year, would buy their crude temporarily some where else outside of Turner Valley.

A I do not see that has any relation to my statement, Mr. Plotkins.

Q No relation? Well is this not a fact, Mr.Cottle, that last year due to the sudden demand that took place in August and September as you know?

A Yes.

Q The British American was forced to open up their Bell Refinery in Calgary and was forced to open up their B.A. Refinery at Coutts?

A That is my information.

Q Yes. Now other refineries in Saskatchewan, and I do not know about Manitoba, but I do have some personal knowledge about the refineries in Saskatchewan, were not able to get their crude supplies?

A Why?

Q Because the pipe line at that time could not carry it.

In other words.....

A The 6 inch loop was not completed at that time. You are speaking of May last year?

Q No, I am talking about the peak demand in September.

A Oh, I see.

Q The Imperial gave us the excuse, and it may have been a valid one, I do not know, that they could not transport any more oil and that is why they were not in a position to supply the crude to certain refineries in Saskatchewan. Now in the face of these facts do you still maintain that your Board orders will have no effect on production? Sales in Turner Valley?

A I do not see the relationship between your question and my statement, Mr. Plotkins. I still say the orders of the Conservation Board will not in themselves restrict the through put of this pipe line. Now the capacity of the pipe line will naturally restrict its through put if it has any need to transport more than its capacity. But it did not exceed its capacity last year, and I presume it could still carry as much oil as it did last year. Now if the market demand is 100,000 barrels in 1939, I am not saying that the Turner Valley field will not be restricted by the Conservation Board, but that is not a reasonable assumption and I am referring in my statement to the restriction of through put of the pipe line in '39 as compared with 1938.

Q Put it another way. As you recall - you were in Edmonton when this new Conservation Act was passed?

A No, I was not.

Q Are you aware of this, that Mr. Knode at the time the

last Conservation Act was passed by the Alberta Legislature did not express his opposition to our request to allow storage accumulations of crude to be drawn on during the peak seasonal demands, and thereby level off production. In other words, I put up the problem to him that one of the ways of eliminating a situation such as arose last year was to level off the peaks and he agreed with us. If I remember right he said "I do not see any objection to allowing you to produce on that basis." Do you know anything about that?

A I do not know anything about any such statement.

Q If that took place would that not eliminate these possibilities of losing some market for the pipe line and incidentally for Turner Valley crude?

A You mean if storage should be provided for, if storage for oil was provided for prior to the market demand would it not relieve the pipe line situation or relieve the Conservation situation, is that your question?

Q No. Are you concerned with storage. Do you have to provide any money to put up tanks?

A No, not at all, but you are asking me a question about storage. That is your question.

Q Why does the question of storage bother you at this time in answering that question?

A It does not bother me at all. I just want to understand your question.

Q What I am saying is, if the Board gave effect to the promise that Mr. Knode made to us independent producers or independent purchasers.....

A I have no knowledge of any promise. You will have to State it.

Q But if the Board wants it we can bring the evidence.

MR. FRAWLEY: You are asking Mr.Cottle to assume?

A I will make the assumption. State the promise? I do not know what promise Mr. Knode made. I will assume the promise too if you wish.

Q MR. PLOTKIN: Mr. Knode was asked if he had any objection to levelling off the peak production periods in Turner Valley and relieve the situation as it ooccurred last year for the refineries and pipe line and everybody else, even the producers?

A Yes!

Q By allowing a levelling off of the peaks. In other words not necessarily uniform throughout the year, but at some time greater than the actual demand so as to build up a reserve that would permit of withdrawings during the peak demands and thereby would not create a situation such as existed last year. Now would not that change be danger, or would not that eliminate or minimize the danger that I see in the present method of the Board and the necessity of clamping down production to take care of only current requirements?

A You think of storage to take care of peak demands eliminating the danger. What is the danger.

Q The accumulation of production?

A Yes. Would it not eliminate the danger? What is the danger? I do not understand the danger?

Q The danger is that last year we found a situation where the pipe line was unable.....

A I do not know as to that.

Q For some time.....

A I do not know as to that, Mr. Plotkins.

Q Let us assume that. It came pretty close. You say 28,000 barrels is that not right?

A 28,000 barrels was the demand, and I understand the pipe line can run 30,000 and perhaps more.

Q But you understand that the pipe line can run 30,000.....

A Perhaps more, I do not know. I know it can run over 28,000 barrels, because I know it did run over 28,000.

Q If I recollect it, Mr. Coultis on the stand told us that last year the maximum of 30,000 barrels per day was put through. That was at least my understanding. Now we will assume that the margin then was between 28,000 and 30,000?

A Yes, let us assume that the pipe line cannot by any means carry more than 30,000 barrels of crude. Let us make that assumption now?

Q Yes? Would not a levelling off of this peak production as ordered by your Board eliminate that possibility?

A Of that 30,000 being exceeded.

Q Of the pipe line not being able to carry the crude that is produced and required?

A Yes, it would. It would require very little storage. I will amplify that in this way, Mr. Plotkins, that the peak demand of 28,000 barrels a day endured for a period of approximately 40 days last year. That peak demand of 28,000 was only 6,000 barrels more than the allowable, or at least than the demand on the field had been for some time previous to the peak demand. Now 40 days at 6000 barrels a day excess is only 240,000 barrels of crude. Had that amount of storage beer accumulated prior to August 15th, 1938,

there would have been no necessity of increasing the allowable to 28,000 barrels. No doubt steps will be taken this year to eliminate that peak notwithstanding the fact the wells in the opinion of the Conservation Board are quire capable of producing - well I will put it this way - the Conservation Board is of the opinion that the wells now in production, together with the wells which can be expected to be in production by August of the next year, will be able to produce as much oil as the pipe line, as our assumption of the capacity of the pipe line is without waste. Does that answer your question?

Q What you are now saying is that your Board has now changed its policy.....

A We have not changed our policy at all.

Q Well, has not considered then the advisablity of allowing extra production previous to a certain date to prevent a peak or a situation such as existed last year.

A Now we have not changed our policy at all. There is no change of policy at all.

Q I did not get your last question then, and I would like to get it read to us. Your last answer?

THE CHAIRMAN: I do not understand that Mr. Cottle has said the Board had ever refused to allow the refineries to store ahead of time if they want to.

A We have no concern with that.

Q If they want crude to store or distribute around the country you have no objection?

A None whatever.

Q So long as that demand is [illegible] in consonance with the

efficient operation of the field.

A That is it sir, exactly.

Q And if they store enough there may be no need for this importation from Montana of the 17.2%, that is your point?

MR. PLOTKINS: Yes. No, pardon me, I do not want to relate it to the 17.2%.

THE CHAIRMAN: I have been listening to you for a long time and patiently as to what the Conservation Board will do and will not do, and I gathered it had to do with the importation of crude from outside, that the B.A., was forced to import crude because they could not get it through this pipe line?

MR. PLOTKINS: Yes, but the 17.2% had no relation to the operations of the B.A., at the Bell Refining or at Coutts to my knowledge.

THE CHAIRMAN: I thought the suggestion was that if the B.A.,had plenty of storage it would have had no need to - when faced as it was with a sudden call at the peak load of the year - to have brought some in from Montana. It would have had it here. I thought that was your point?

MR. PLOTKINS: That is partly my point because the question .....

THE CHAIRMAN: Then what is your point besides.

MR. PLOTKINS: There are several factors that entered into the picture at that time. In other words the B.A., as I see it, found itself in a position where the Imperial Oil said "We cannot refine that much

gasoline or that amount of products to supply you," and they gave the B,A., notice. The B.A., was faced with a situation where, due to the policy of the buying companies, as recognized by the Conservation Board of buying only their immediate crude requirements and not accumulating either crude or finished products, and the B.A., was then faced with a sudden situation where they had to meet their own demand the best way they could.

THE CHAIRMAN: Yes, now, then the buying companies, as you speak of them, are the refineries, I suppose?

MR. PLOTKINS: The refineries, yes.

THE CHAIRMAN: What has this Board or this witness got to do with what orders thet will give in advance? Perhaps they will store as you suggest.

MR. PLOTKINS: I quite understand your difficulty in understanding that relationship.

THE CHAIRMAN: I do not understand this withess to say that the Board has ever refused to allow refineries to get their orders filled.

MR. PLOTKINS: No.

THE CHAIRMAN: If a refiner had seen fit to give an order?

MR. PLOTKINS: That is correct.

THE CHAIRMAN: Well then?

MR.HARVIE: On that statement I think maybe what Mr. Plotkins is suggesting is I think it was Mr. Knode's evidence before the Agricultural Committee of the Legislature that he did not favour storage in the field for the purpose of levelling off production in

the peak loads.

MR. FRAWLEY: He did not favour it? Mr. Plotkins is saying he said he favoured it.

MR. PLOTKINS: He said he saw no objection.

MR. COMMISSIONER LIPSETT: How does this help us to arrive at a fair pipr line rate, Mr. Plotkins? The capacity of this line was 30,000 barrels a day which comes to nearly 11,000,000 barrels a year. What we are considering as I understand it at the moment is this, if there is going to be any less consumption than last year, any less through put.

MR. PLOTKINS: Yes.

MR. COMMISSIONER LIPSETT: How does that affect it?

MR. PLOTKINS: It affects it, Mr. Commissioner, in this way, that the Conservation Board through its orders - that is my opinion, is in the position, based on the nominations of the companies, if it saw fit, and then we will go into that when we go into production - these matters are all inter-related and it is hard to separate them sharply. But if the Board continues its present policies into 1939, as it did in 1938, the pipe line deliveries or the pipe line offerings are going to be up and down, and of necessity they will influence operating costs, income and even markets for Turner Valley crude in the Western Provinces. Now this is what I am trying to bring out, it is very difficult and I quite realize it for to stay on the ground of the pipe line and not bring in the production and marketing issue and show that relationship.

THE CHAIRMAN: There is no objection to bringing in the production and marketing so far as it

has a bearing on the pipe line. Not at all. I can quite see that what you are saying now you might say in argument, but I do not see what more you can get out of this witness.

MR. PLOTKINS: Well you see, my Lord, the Conservation Board takes it on itself to regulate production, to regulate the marketing, to regulate the processing and to do a lot of things that do affect the consumption of Turner Valley crude oil. That is why.....

THE CHAIRMAN: You may argue at some appropriate time, whether it is at the end of this or not, that it is all quite wrong and so on. But all I want to know is, so we will get done, is what more can you ask this witness as distinguished from what argument you may present upon it. All you are getting from him is, you are not going to convince Mr. Cottle but you hope to convince us, what facts do you want to extract from him and get at them, because we are going to hear you fully in point of argument.

MR. PLOTKINS: All right, Sir.

THE CHAIRMAN: At the appropriate time.

Q MR. PLOTKINS: With regard to field prices, I understand, at least I remember yesterday you mentioned, Mr,Cottle, that you were concerned or you did take some part as representing the Provincial Government in checking up or weighing or - yes, weighing prices, the posted field price that the Imperial was offering or was going to publish for Turner Valley crude, is that correct?

A That is right.

THE CHAIRMAN: Well we will now rise.

(At this stage the Hearing was adjourned until 2 P.M.)

.....

(EXAMINATION OF MR. COTTLE CONTINUED BY MR. PLOTKINS)

Q MR. PLOTKINS: Mr. Cottle, you say that field prices of Turner Valley crude will affect the pipeline run?

A I said they may but not necessarily.

Q Does the Conservation Board concern itself with the fairness or otherwise of the peipline price, the posted field price in Turner Valley?

A Not at all.

Q Not at all?

A No.

MR. NOLAN: Now---

THE CHAIRMAN: The posted field price.

MR. NOLAN: I thought Mr. Plotkins said the pipeline price.

A I misunderstood you, Mr. Plotkins, you said the pipeline price, I would say not at all.

Q You are not concerned with the posted price?

A Not at all.

Q THE CHAIRMAN: Nor with the pipeline rate?

A No sir.

Q MR. PLOTKINS: I will read you from the evidence taken before the Agricultural Committee in connection with Bill No. 1, an Act for the Conservation of the oil and gas resources of the Province of Alberta, on page 73.

MR. FRAWLEY: Better fix the date.

MR. PLOTKINS: The date, a session of the Committee held at 4:30 p.m.

MR. FRAWLEY: You mean this year?

MR. PLOTKINS: Well is it this year?

MR. FRAWLEY: 1938, of 1938.

MR. PLOTKINS: I do not notice the date on here.

MR. FRAWLEY: It was in connection with the Bill which is now Law.

MR. PLOTKINS: Which is now Law.

MR. FRAWLEY: All right, it was in December, the first part of December or the latter part of November 1938. Mr. Cottle does not know, he was not even here in the Province at that time.

THE CHAIRMAN: All right, we will assume it was in the Fall of 1938, Mr. Plotkins.

Q MR. PLOTKINS: Yes, this is, if I can find the place where that question was asked and by whom it was asked and who answered it. This evidence is taken at the private committee room, apart from the Agricultural Committee as I recall it, this part of the evidence, you see there was a special private committee that met in the morning of Mr Tanner's the Minister of Lands and Mines and they inquired into these proposed changes.

MR. FRAWLEY: Have you a transcript of that?

MR. PLOTKINS: Yes, that is a transcript of the whole thing.

MR. FRAWLEY: I mean for the purposes of helping Mr. Plotkins, you have what was taken by the reporter, the evidence taken before the Agricultural Committee in connection with Bill No.

1, an Act for the Conservation of the oil and gas resources of the Province of Alberta, and oh I do not think for a moment that there is any transcript, and if there was it would not be part of this transcript, if there was a transcript taken of the meetings in the Minister's office it would not be in this transcript.

MR. PLOTKINS: It would not be.

MR. NOLAN: Was the transcript not taken by a girl?

MR. FRAWLEY: By Mr. Tanner's secretary, that is true, but I am only suggesting it would not be put in as part of this.

MR. PLOTKINS: Now I have the difficulty, Mr. Chairman---

THE CHAIRMAN: What is the point.

MR. PLOTKINS: I want to read something here and I do not know who said it.

THE CHAIRMAN: Read it anyway.

"You will remember that section 8 of the Act". This is apparently Mr. Smith who was Counsel for the Conservation Board, is that correct?

A Which Mr. Smith?

Q It doesn't say?

A I do not know.

Q I recall it was a Mr. Smith?

A I do not know, I was not there.

MR. HARVIE: It would appear, Mr. Chairman, that this series of questions that Mr. Plotkins proposes to read are questions by Mr. Smith but I do not know who was answering them.

THE CHAIRMAN: Well look gentlemen, that which you are about to read is not of the slightest value to us except as a basis of a question to this witness. That evidence was not given before us and we do not care anything about it except as you may lead up to a question to this witness.

MR. PLOTKINS: That is my intention.

THE CHAIRMAN: It does not matter who said it or why they said it or who asked the question. It does not mean a thing to us except as this witness may deal with the subject there discussed so read it whoever said it.

Q MR. PLOTKINS: I read,

"You will remember that section 8 of the Act under which that Act and subsection join, reads as follows: "Prorating the production of petroleum or natural gas from the wells in any area to the economical markets available in such a manner that uneconomical reduction of price is not brought about, and in such a manner that an equitable share of markets, petroleum or natural gas, is available to each person's well" so that perhaps you will agree with me that if the Board did pass their order to some extent on the market, they were doing exactly what they were ordered to do by this legislature. I am not saying it is right or wrong, but they were doing what they were told to do by the very Act itself."

In view of this is it still your policy or your answer that the Board is not concerned with prices?

A Yes, it is still my answer.

Q Only with the matter of importation?

A Perhaps you had better say which Act that quotation is referring to there.

THE CHAIRMAN: Yes, from just what you read, Mr. Plotkins, I would take it that the questioner was referring to the Act that ceased to be Law.

MR. PLOTKINS: Yes, I believe so myself, Mr. Chairman, and I just want to find out if that is not now the policy of the Board because---

THE CHAIRMAN: You have a definite answer from the witness "no" and it does not matter what somebody in the Legislature may have said.

MR. PLOTKINS: Quite so.

THE CHAIRMAN: Or in the legislative committee.

Q MR. PLOTKINS: So that when you told us yesterday that you were concerned or you were instrumental in checking the posted field price some time ago, it concerned the old Act?

A No, it did not concern either Act, Mr. Plotkins. My check was not done as a member of the Conservation Board. In fact my check was done before the Conservation Board was then organized.

Q Well under what authority and what would be your postiion at that time?

A I was acting under instructions from the Government of Alberta.

Q What department, was there some body that was endeavouring to regulate prices or to concern itself with prices?

A The Department of Lands and Mines were concerned

about the prices of natural resources.

Q The Department of Lands and Mines were concerned about prices and their fairness, is that the answer?

A I presume they were, yes. They instructed me to make inquiries.

Q Then, Mr. Cottle, what you are saying is that your Board merely translates the refiner's demands as expressed from time to time into an equitable allowable for the entire field?

A Translates, will you read the question again, Mr. Cutler?

(Reporter Reading): "Q. Then, Mr. Cottle, what you are saying is that your Board merely translates the refiners' demands as expressed from time to time into an equitable allowable for the entire field?"

THE CHAIRMAN: I suppose you wish to add "subject always to efficient operation"?

Q MR. PLOTKINS: Yes.

THE CHAIRMAN: Because that is what he said throughout?

A Yes, I would not express it in that language, Mr. Plotkins, but that is a fair statement I think.

Q And it follows then that the refineries acting through the Board, the refineries acting through the Board do regulate the market demand for Turner Valley crude?

A Yes, the people who are taking oil from the Turner Valley field determine how much will be taken from that field, up to the point where in the opinion of the Board waste will occur. We as a Board have no desire to limit the production

of the Turner Valley field in any way other than for reasons of Conservation.

Q Only for reasons of conservation?

A Yes.

Q So you are not concerned with the effect of any policy on the part of any one company on the volume of the throughput of the pipeline?

A What kind of company do you refer to.

Q Well the Imperial or the B. A. or myself, our company may choose to change, our company's volume is not sufficient, but the larger purchaser such as the B. A. chooses to change its source of supply to cover any particular district and thereby create a situation in Turner Valley and that situation in turn is reflected on the throughput of the pipeline, you do not concern yourself with the matters of policy of these different companies?

A No, we have nothing to do with the policy of the company.

Q So you leave out with them---

A We are not buying oil and we cannot make people buy oil.

Q That is right. I am reading again from this transcript of the special session of 1938, page 152, Mr. Anderson, M.L.A. this is addressed to Mr. Knode.

"Is it your intention to see that the oil flow in the valley is held as uniform as possible and in keeping with the best known principles of production, of course, and to meet the market?"

Answer, Mr. Knode:

"The suggestion has been made to the Board, and I think, in view of the powers that we have in this particular country, that it is a sound suggestion - we experienced the distress condition when we had the allowable of 28,500 barrels, that the Board knew that we were not creating good conditions in the field. The suggestion has come to us since that storage be allowed to smooth out those rough places, high spots and low spots of the map. I think there is one very present danger in that, and that is this - if you allow storage on spot oil and the man who has the spot oil decides that he is in distress and may be in distress, he can go to somebody, I don't know who, but somebody, and say "Here, I have a well of 50,000 barrels of oil over here which, at the going market price of $1.26 some time next summer I can deliver, but I am in need of this money at the present time; I would like to call on your tender mercies and sell you this oil at 20¢ a barrel- there is no reason holding a preference for the major companies for this, because they will take it at 25¢ a barrel." The resultant is that he has destroyed or tended to destroy a sound field price."

This is Mr. Knode speaking.

"If the price is cut in Turner Valley, $1.26, $2.26, $4.26, you at least have destroyed the

status quo in the market with result lack of production, over-buying production in the field if you ask 50¢ a barrel. It certainly isn't worth $1.26 to me in the field and I won't pay it. The resultant is we have a tendency to lower the market for our crude, and let me suggest to you gentlemen, you, as owners of 10% of that royalty are intensely interested in the price of that oil. If oil is sold 60¢ instead of $1.26 it means your royalty instead of being 12 1/2¢ a barrel is 6 1/2¢ a barrel."

Now this is what I had reference to this morning when I said I believed that Mr. Knode did not see any objection to levelling off production, although as you have just heard he did express the fear that it might cause fluctuation in the market prices, well he still is dealing with market prices, and in view of those statements and if I remember right they were given to the House in conjunction with Mr. Knode's views for the present Act, in drafting the present Act, he was afraid the Province was going to lose a lot of money if he did not hold on to that price good and tight to prevent it from fluctuations, now is that in agreement with what you have just said that the Board is not concerned with price?

A The Board in exercising its function under the Conservation Act, under the Petroleum and Natural Gas Conservation Act, is not concerned with prices.

Q Not concerned with prices?

A No.

Q But you do, you are of the opinion that it would

not be wise to allow storage, to allow oil to accumulate?

A For conservation purposes?

Q Yes, for any purpose?

A No, I do not think it makes any difference.

Q Is that not the present---

A We as a Conservation Board are not concerned with what happens the oil once it leaves the well head.

Q Well you say that this suggestion of Mr. Knode's does not apply to the present Conservation Board?

A It does not apply to the policy of the Conservation Board. What Mr. Knode has stated and what you have read to me may be perfectly true but that does not alter the fact that we are not as the Conservation Board concerned with prices.

Q And you do not allow that to affect your decisions or your orders?

A Not in any way.

Q Now coming back to this question of the levelling of peaks, which has a big effect on the operation of the pipeline, you will admit---

A I do not know what large affect it would have on the operation of the pipeline, in what way Mr. Plotkins?

Q In what way, the independent refineries in Western Canada consume, according to your calculations, about 2850 barrels a day, would you say that that figure was approximately correct?

A I would say it is approximately correct just from memory,

Q Now the independents are not in the same position

as the Imperial or the British American, they buy on the cheapest market on the basis of their own interests, I mean they are not concerned with other production in the States or anywhere else, I mean they are only concerned with buying stictly on what it costs, now would you dispute that?

A I would not dispute that but I do not see the distinction you are making.

Q You do not see the distinction?

A No.

Q Now take a refinery in Winnipeg which needs, I have a particular refinery in mind, requirements of 500 barrels a day, it is not very much concerned with whether it buys Turner Valley or whether it buys Cutbank or Keevin, why, because it has a market that it can use either crude economically for, the only thing they are concerned with is the laid-down value to them, now that refinery would be in a better position to switch suddenly, they are not controlled by any parent company, the man at the head of that refinery is in a position to make his choice from time to time and he would be more likely to buy in Montana if conditions did not suit him in Turner Valley?

A Why, Mr. Plotkins.

Q Pardon?

A Why, I might be able to agree or disagre with your reasons.

Q Well the reasons are these, in Montana he has the choice of a multitude of producers, he can go to

them and make his contract, they will weigh his market requirements and they will weigh his particular position; when he comes to Turner Valley he is faced with this situation, there is the posted field price, he has to nominate the amount that he wants to the Board in advance, he has---

A That is not so.

Q That is not so?

A No.

Q How is the Board then going to determine his requirements, and translate them into actual production?

A Well if that particular refiner purchased oil in the field say from some refinery who has oil or from some person who has oil it would not be necessary for him to come to us immediately and tell us how much he is going to take. As soon as we find out that more oil is going from the field than our allowable permits we immediately increase the allowable. We know this so-called nomination is made. As a matter of fact no nominations are made to the Board. The Board makes an inquiry to ascertain approximately how much oil is going to be taken from the field and it sets it proration order on that basis.

Q So that you claim that in spite of the gauging of the market requirements from time to time, there is some surplus available that any independent refiner in Winnipeg can go to the field and buy?

A No, I do not say that, Mr. Plotkins. I will say

this though, this particular refiner you are speaking of in Winnipeg, never at any time made any nomination to the Conservation Board and yet that refiner obtained oil.

Q Yes that is true.

A I mean too much significance is attached to this business of nominations to the Board.

Q Is it not a fact though that this particular refiner instead of going to the Board, having investigated the conditions that existed in Turner Valley, and knowing the situation, instead of going to the Board, has tried to find a seller and that that seller has in turn made the nomination for the Winnipeg refiner?

A Well what do you mean by "nomination", Mr. Plotkins? Perhaps if you define what that word means.

Q He has stated to you the figure as the probable requirement for the period as requested by the Board and that would include not only his own requirements but any shipments which he might make to Winnipeg or to some other refiner.

A Yes, but people taking oil from the field have advised us how much oil will be taken, they intend to take from the field and we have adjusted our allowables to enable the wells to produce that much oil.

Q So that coming back to this particular refiner, then, he is in this position that he has to go to someone who will find him or sell him the oil?

A Quite.

Q And under existing conditions it is not very much,

[illegible]

there are not many places that the independent refiner, that would supply this other refiner, that the Winnipeg refiner can go to, there are not many people, in fact there are not a----

A Due to the fact that most of the wells are contracted to other purchasers.

Q Yes, that is correct?

A Yes, that is true.

Q So that the Winnipeg refiner finds himself in a closed market?

A What do you mean by "closed market"?

Q Well there are no sellers, he has to worm his way in in order to get a supply?

A I do not know what you mean by "worm his way in", Mr. Plotkins. He has to go to someone who has access to the oil to get it, that is true. Whether you would call that "worming in", I do not know.

Q Is that the same situation which exists in Montana, you are familiar with the Montana field?

A No.

Q That is not the situation?

A No.

Q What is the situation in Montana when the Winnipeg or Saskatchewan or Alberta refiner wants to buy oil?

A Well I presume he would go to the people that he knows have no market at the present time and attempt to buy from the producers. I assume that is the case at the moment, the difference being that there are more wells in Montana that have

not contracted to purchasers than there are in Turner Valley although I do not know, I have not looked at the Montana situation for approximately a year now.

Q Then you will agree that in Montana there is an open market, in other words the Canadian refiner, the Western Canadian refiner, can go down there and without having to go through a major company, or through any broker or any pipeline, he can buy his requirements at whatever the market price is?

A At whatever price is agreed upon between the purchaser and the seller.

Q Yes, and if he agrees to pay---

THE CHAIRMAN: Was that the position a year ago?

A That is the position a year ago and I do not know if that is still the postiion although I do not know of anything that has happened in Montana that would change that position.

Q MR. PLOTKINS: So the Canadian refiner is going to be strongly influenced under the present situation to make his purchases in Montana and affect seriously, we have last year's history, the throughput, at least to the extent of the independent share of it, that is going to go through this pipeline?

A That depends entirely upon at what price he can buy his oil at in Montana as compared with the price he has to pay for Turner Valley crude.

Q Well---

A And the price of which, the cost of which he can lay down Montana crude at his refinery as compared with Turner Valley.

Q Is it entirely a matter of price?

A I would assume so, it is just a matter of cost to the refiner, I do not know of any other thing which would influence such a refiner as you are speaking of.

Q THE CHAIRMAN: It is suggested the refiner may not be able to get it at all because of the contracts with these major companies tying up the production?

A In Turner Valley?

Q Yes?

A I know that no refiner has been unable to get Turner Valley crude. True, all cannot approach the Turner Valley producer but crude has always been available, subject to meeting the conditions of the pipeline, from people that have oil. I do not know anyone that has been unable to get oil in tank car quantities.

Q MR. PLOTKINS: If I suggest to you, Mr. Cottle, that the Regina refinery, what was the name of it, Mr. Frawley?

MR. FRAWLEY: The Consumers' Co-operative.

Q THE CHAIRMAN: At the posted price, Mr. Cottle?

A Yes, at the posted price plus the pipeline rate, plus a handling charge.

Q Plus a handling charge?

A Yes.

MR. FRAWLEY: In tank car quantities?

A In tank car quantities.

[illegible]

[illegible]

[illegible]

Q MR. PLOTKINS: I suggest to you---

THE CHAIRMAN: Excuse me a moment, Mr. Plotkins, what is meant by "tank car quantities", how much?

A Well in a tank car, I should have said a tank car holds approximately 230 barrels I think, I may be a little off there.

MR. PLOTKINS: Between 6000 and 7000 gallons.

WITNESS: Well it ranges up to 10,000.

Q THE CHAIRMAN: A tank car holds?

A 230 barrels I think is approximately right, is that not so, Mr. Plotkins?

MR. PLOTKINS: The standard tank car is 6700 Imperial gallons, there are smaller and there are larger.

(Go to number 4459)

MR. FRAWLEY: I am instructed by someone who knows that the standard tank car is 7,000 gallons or 200 barrels?

A 200 barrels.

Q MR. COMMISSIONER LIPSETT: That handling charge is a charge made by the Imperial Oil for passing it on?

A Yes, sir.

Q And doing the loading?

A Yes, sir.

Q Do you know how much that handling charge is?

A 5 cents a barrel.

Q They do not actually get the crude oil at competitive prices, they have to pay this 5 cents a barrel over and above the posted field price?

A They have to pay the handling charge for loading into the tank cars, plus the pipeline for transportation from the well, plus the posted field price. I would say, sir, that is a competitive price inasmuch as all other people have to pay that price.

Q You say all other people. All other people except the Imperial?

A Except the Imperial, yes.

Q MR. PLOTKINS: Mr. Cottle, as a matter of fact, even the Imperial pays it indirectly. They load their own tank cars and there is a cost. They load it at their own cost. The pipeline does not load that for them?

MR. COMMISSIONER LIPSETT: They do not load tank cars for.....

A MR. PLOTKINS: For their own refinery at Regina they do.

A Yes, for their refinery at Regina.

Q They have a cost, whether it costs 5 cents or 10 cents.

I do not know. So the matter of the 5 cent loading charge does not really affect the pipeline competitive figure?

A Not very much, no. You mean assuming that the 5 cent charge is an unreasonably high charge it still is not a sufficient factor to affect competition, seriously.

Q Well, no, I would not put it that way.

MR. COMMISSIONER LIPSETT: I do not think he was suggesting it was too high. Were you or were you suggesting it was right or too high or too low?

MR. PLOTKINS: At this time I did not feel it was necessary to go into it. I covered that in my brief.

THE CHAIRMAN: I do not think so either. I agree with you. Let us get on.

Q MR. PLOTKINS: To come back to this Consumers' Co-Operative Refinery at Regina, the facts are that last Summer they were unable to find a seller of Turner Valley crude. They came to me and I told them I could not see where I could get them that crude and the manager quietly carried on his purchases in Montana. It was only some considerable time after this that he did buy, at least the refinery bought a few tank cars, and for reasons known to themselves - I am informed it was because there was too much red tape - that is the way they put it, and they discontinued again. In view of that would you still think that the average independent refiner in the Western Provinces would make any serious efforts to find somebody that was good enough to sell them some crude at the regular going prices?

A I do not accept what you said, Mr. Plotkins. The Consumers' Co-Operative in Regina did buy oil in considerable quantities

from Turner Valley.

Q For a time?

A For quite a time, yes.

Q And you do not agree with me when I say they went back to Cutbank?

A I do not know that they did. Perhaps they did.

Q We will take the refinery, the Sodium Natural Products at Expanse, or some little town in Southern Saskatchewan?

A Yes.

Q Is not that the same history. They for a time purchased Turner Valley crude and then went back to Montana?

A Yes, to the Kevin-Sunburst field. But for what reasons I am not sure. One of the reasons is that they are in the fuel oil business and wanted a heavier fuel. What other reasons they might have had I do not know. What reasons the Consumers' Co-Operative might have had in going to Cutbank - I do not know that they did - but for what reasons they went to Cutbank I do not know. It might have been a price consideration or some other consideration.

Q You are not of the opinion in general the reasons are it is hard to buy crude in Turner Valley, that is, in general?

A In Turner Valley?

Q All refineries in Western Canada, the independent ones?

A You say to buy crude in Turner Valley?

Q Buy Turner Valley crude?

A I do not think so, because I do not know of any insurmountable difficulties of buying Turner Valley crude in tank car quantities. I do not know of anyone who has been refused a supply of crude oil in tank car quantities.

Q I am going to read again from the additional evidence,

Friday, November 18th, page 85 A.

"Q. It is in the interests of the field to have surplus storage?

A. My clients feel it is in the interests to have storage.

Q. More than you have a market for?

A. Yes, I think you should have storage in the field for the simple reason that the market in this is probably unlike other places -- probably unlike Texas. You have a peculiar market in that. As we all know, there is a large consumption of fuel in the spring when the farmer is on the land, and in the fall when these crops are being taken off, and from April to September and October where there is a very heavy market demand, and then, this kind of weather comes down on us, and now for another few months there is a very light market demand. Now, we suggest for serious consideration that they have a petition as we had last September when these wells were allowed, they should have been allowed to produce, which is wasteful -- that there should be something to even out, I think Mr. Smith said yesterday, the humps and hollows of the production line.

MR. TANNER: The same question followed up. Did Mr. Knode not make it quite clear to this Committee yesterday, that is his desire and his intention to iron out the level that is used, and see there was sufficient without pooling the field to meet the demand?"

A Is that word "pooling" or "pulling"?

Q Yes, pulling it would be, to meet the demand.

A Yes, it makes no sense otherwise.

THE CHAIRMAN: What is the question now?

MR. PLOTKINS: I am suggesting to Mr. Cottle that this pipeline would much better supply all the market demand and would have an influence on restricting the importation of crude oil and other refined products if the field were allowed to produce on a basis so as to establish crude reserves to meet the market on a more uniform basis.

A To establish reserves in storage prior to the peak demand ontthe market?

Q That is right.

A That is on the assumption that the pipeline is not capable of carrying the peak demand without the storage is built up. You are referring to the pipeline at the moment?

Q Not exactly the pipeline alone?

A That is what you said in your question.

THE CHAIRMAN: Supposing Mr. Plotkins wanted to get a load of oil from Sunset. The suggestion is he might be deterred by this general scheme of pro-ration if he wanted to keep it in storage, to use a concrete example?

A Well, in answer to that, we are not interested in what happens to the oil after it is produced. If Sunset or Sunburst, which is, perhaps, the well you had in mind?

Q Yes, Sunburst?

A If Sunburst will just put its oil in storage we have no objection to it doing that so long as that well does not produce more than the allowable assigned to it.

Q MR. PLOTKINS: Yes, but, Mr. Cottle, when a refiner in Saskatchewan or Manitoba wants someone in the Turner Valley field, either a refiner or a producer, to sell them oil in August when it is faced with a choice of buying

in Cutbank or buying in Turner Valley and thdre is no visible reserve, he has to depend on daily production and he has to depend on the pipeline not breaking down, and he has to depend on tank cars being available for shipping, would not that create a condition that would militate against using Turner Valley crude as against a free market?

A Not at all.

Q That is, more tank cars and other facilities being available in Montana where there are reserves?

A More tank cars available in Montana?

Q Yes?

A And more pipelines available?

Q Well, no. I say there are reserves in Montana?

A You spoke of visible reserves, Mr. Plotkins, being oil in storage on the lease, is that what you had in mind?

Q No. If you will study the Conservation Board's statement, the Montana statement, you will find at all times in that field there is a certain reserve supply on hand, either in the field or in the hands of the pipeline company, stored?

A Or in the hands of refiners?

Q That does not show the reserve in the hands of the refiners. But that statement does cover.....

A I think it does, if my memory serves me rightly. Perhaps, you had better refer to that Exhibit. I have it here.

Q For our purposes it is not essential?

A The storage, according to the Exhibit you filed, totalled at the end of the year 1938, 1,480,604 barrels. That is total storage, of which the producers had in storage 192,463 barrels; the transporters had in storage 726,140 barrels, the refiners had in storage, 363,359 barrels, and purchasers had for storage, 196,931 barrels.

THE CHAIRMAN: The Exhibit you refer to is what?

A I haven't the Exhibit number on my copy of the Exhibits.

MR. FRAWLEY: Exhibit "167".

Q MR. PLOTKINS: What percentage of the total production for that year would that figure of storage, total storage, represent?

A 29%.

Q 29%, and in your experience, Mr. Cottle, you have been dealing with these particular Montana figures for a number of years, I mean 1936, 1937 and 1938. You have made several trips in the field?

A Yes.

Q You have acquainted yourself with the Conservation Board's figures?

A Yes.

Q Is not that approximately the same figure from year to year?

A In 1935 the total storage was 1,000,000 at the same period, compared with 4,600,000.

Q Compared with 4 million what?

A 4,600,000 production, which is 22% approximately. That is 1935.

Q Yes?

A 1936 the storage was about a million at the end of 1936. 1937 it was 1,378,000 and 1938, 1,480,000.

Q So there were substantial reserves available to the trade in Montana at all times?

A Well, this storage so far as the producers is concerned amounted to only 192,038 barrels, and in 1937, 175,000 and in 1936, 132,000. I would say that is the oil that is available to the trade, because the oil in the hands of

transporters and refineries and purchasers is the same as oil in Turner Valley in the hands of the Imperial and British American and Lion Oils.

Q Is that correct, Mr. Cottle?

A I would think so.

Q You understand that in Montana the Illinois and other pipelines carry everybody's oil. In other words, they do not carry oil like here. The market is not in the hnads of one or two large companies, is it, in Montana?

A I do not know how many companies the market is in the hands of. There are several refineries, that is true. There are quite a number of marketing organizations. There are more refineries in Montana than there are here. That is true. I do not know that there are any more people in the oil business than there are here.

Q What I am asking you, would you say that the oil in the hands of the pipeline belonged to the pipeline?

A I would say that the oil in the hands of the transporters belonged to the transporters, as buyers of the oil. The oil in the hands of purchasers for storage would be also in the hands of the pipeline but belonging to the purchasers.

Q Well, in view of what I know I suggest to you that the greatest part of the oil in the hands of the transporters belongs to private concerns and is not the property of the pipeline in Montana?

A Well, perhaps, you know and perhaps, I do not know. I do not know. But that is my impression, that the oil that is shown here as transporters' is the property of the pipeline company as the purchaser.

Q Now, Mr. Cottle, this morning you gave us the increase in

the markets for all companies in Western Canada. Are you able to give us the increase that is represented by the independent refineries and marketers here in the Western Provinces?

A No, I am not at the moment. I can obtain that information.

Q Would you say the independents in the last three years have assumed a greater and greater portion, in fact quite a big chunk, into the Western Canadian markets?

A Well, by independents you mean people engaged in the business other than the British American and the Imperial and the North Star and all such companies?

Q Yes. No, I mean outside the Imperial and British American and its related companies.

MR. HARVIE: Why are not we independents?

MR. PLOTKINS: Well, independent in the form of not being a major company.

Q We will take Alberta alone?

A Yes, take Alberta alone. Which companies do you take into account?

Q Companies?

A Yes.

Q All independent refineries and marketers. Is it not a fact that a few years ago.....

Q THE CHAIRMAN: You mean other than Imperial and British American?

MR. PLOTKINS: Yes.

Q Is it not a fact the Imperial and British American until a comparatively few years ago had approximately 95% of the market?

A I do not know whether it was 95. It was quite substantial. At one time it was as much as 85% and including sales to

jobbing companies supplied by those two companies.

Q Are you familiar with the present figure?

A No, I have not analyzed the figures recently.

Q If I suggested to you that I had made some computations in order to present some information to the Provincial Government that including the big independent jobbers that the independents in the Province of Alberta to-day market 27.7% of the total refined products, would you think that would be out of the way?

A I would not think so. I would not want to say, Mr. Plotkins.

Q Have you any reason to believe that the same condition does not exist in Saskatchewan and in Manitoba?

A I do not know.

Q But we will assume that it does, that the independents are gradually getting more of the market, would not the Commission be well advised to take seriously the possible market represented by the independent refineries and marketers?

A For what purpose?

Q For the purpose of finding out what is the probable market including Imperial and British American for Turner Valley crude as against some foreign crude?

A Yes, but for the purpose of making what deduction or finding. Why would the Commission....you want my opinion as to whether or not the Commission should consider the independent market separately from the big market. For what purpose?

Q To consider the influence that an open market and crude reserves in the Turner Valley field would have on the throughput of the pipeline?

A I do not see, Mr. Plotkins, where it has any bearing. It makes no difference whether the independents, so-called, have 27% or 47% of the total market. The total market is

what it is regardless of the number of companies that are selling. Territorially, this market has a certain number of barrels per day of which so much is coming through the pipeline. I do not think it makes any difference how many people sell that oil.

Q You do not think it makes any difference where it comes from?

A As far as the total market is concerned, no.

Q Do you think it makes any difference where the oil comes from originally?

A As far as the pipeline is concerned?

Q Yes?

A Yes, of course, it does.

Q Then you are giving us some figure, based on the estimates of the total requirements of the Western Provinces?

A Based on the evidence before the Commission, yes.

Q Based on what?

A The evidence before the Commission.

Q Are you aware that the Provincial authorities have means of accurately guaging all the operations in Western Canada so that the Commission can intelligently deal with that question, not only for this year but for the future?

A Say that again, Mr. Plotkins. They have the means of.....

Q I will put it this way, that the Dominion Government.....

A The Dominion Government?

Q Yes?

MR. FRAWLEY: You said the Provincial.

THE CHAIRMAN: It is the Dominion you mean?

Q MR. PLOTKINS: Yes, the Dominion. The question is this. Are you aware that each year the Dominion Government causes one of their departments to

send out a questionnaire, it is a book with approximately 1500 questions, and that that questionnaire covers all the operations, without exception, even to the smallest refinery in the country, thoroughly, as to their imports, their sales, where they sell, and one hundred and one, in fact one thousand and one questions relating to that subject. And that is on a calendar year basis.

THE CHAIRMAN: Let us pause there. He asked you if you are aware that is so?

A Yes, I am aware that all industries report to the Dominion Bureau of Statistics, Census of Industry Branch, including refineries.

Q MR. PLOTKINS: Why wouldn't you take the figures that are available in Ottawa in making up your chart this morning instead of taking tax figures and adding what you think or what you have found the customs have allowed to come in, in order to determine the market?

A Mr. Plotkins, I did not take any tax figures in that. I did not take the tax figures at all for making m estimate. I made the estimate this morning based on the evidence that is here of what is going to be consumed in 1939, or what is going to be transported over the pipeline in 1939. I know of no other place where that information is available.

Q For 1939?

A For 1939. That is what I did this morning, Mr. Plotkins.

Q But for 1938 and for the previous years would it not, in your opinion, be much better for you, for your department and for the Commission, to get the facts and figures from the Dominion Government, covering all the operations of

every oil company in Western Canada?

A Instead of submitting Exhibit No. "170", you mean?

Q I have not seen it. I would like to look at it.

A I know of no more reliable source of information contained in the Exhibit than I got, namely, from the records of the Petroleum & Natural Gas Conservation Board, and adding to it the records of the Compilation Branch of the Dominion Bureau of Statistics, Customs Compilation Branch.

Q That is, you have used Customs' figures?

A For the importation figures that I have no other record of, yes.

Q Customs' figures, added to the figures the Provincial Government has available.....

A I did not use information the Provincial Government has available. I used my own information which is available to me as a member of the Conservation Board.

Q Mr. Cottle, you put in another Exhibit that purported to weigh the gasoline consumption and you used the tax figures?

A An Exhibit was put in this morning to show the increase in consumption of taxable products for the past four years, and the information just happened to be for the years ended March 31st, 1936 to 1939 inclusive. That is no estimate of mine. It was not intended to be an estimate of the market. It was just to indicate the trend in total consumption.

Q Yes, and here we are making assumptions but we do not know what amount of heavy distillates are represented in 1936?

A I so stated this morning.

Q You do not know what amount of heavy distillates are

represented as sales or are sold in Saskatchewan and Manitoba, that is correct?

A That is correct.

Q All right. All the figures of consumption are available, not any guessing, but accurately. Why could not these figures be available to your Board and in turn to this Board so that they can predicate their findings on something solid, on actual facts and not.....

A Would it make any difference whether they were - perhaps you did not understand the purpose in submitting that this morning. It was merely to show the trend being a gradual increase year by year. That is not submitted to indicate what the total Prairie Province market is.

Exhibit "170" purports to show what the consumption was in 1938, and it was prepared from the most reliable source I know of, notwithstanding what you have said about the Dominion Bureau of Statistics.

Q Would you not think that it would be better to determine actually what the facts were, so as to find out if that is a fact, the trend is upwards or downwards or what the reasons are, because my information is that the Dominion Government gives exhaustive statistics and facts and figures and gives the reasons why it is this and why that, and that would certainly be preferable to estimates by various bodies, because they have in their power the ability to secure much more accurate information than the Provincial Government?

A I dispute that.

Q Well, can you go into Saskatchewan and determine the markets and refining and crude importations and so forth?

A Can I go into Saskatchewan?

Q Yes, as a Conservation Board?

A No, I cannot, to determine what the market is go into Saskatchewan. I could determine the market, the Turner Valley crude oil that goes into Saskatchewan, because I know the complete disposition of practically every barrel of crude oil that is produced in Turner Valley.

Q But you mean you can follow it up to the Saskatchewan refinery but you would not know what happens to it from there?

A I am not interested, Mr. Plotkins, Once it gets to the refinery it is consumption as far as Exhibit "170" is concerned. How much of it turns out as distillate or Diesel fuel or gas oil or gasoline means very little as far as consumption is concerned. In other words, Exhibit "170" is a computation of consumption based upon apparent disappearance of the supply, which is known. Quite a common method of estimating consumption.

Q Has your Board made any official survey of the Turner Valley field to determine the crude oil reserves and physical conditions that must govern efficient production methods to recover these estimated reserves?

A To determine the crude oil reserves and.....

Q How to recover these reserves. How they may determine which is the best way to recover them?

A We have made no attempt to determine the crude oil reserves, no. We have studied the characteristics of each well in the Valley. We keep very exhaustive records of the various functions of the wells for our own guidance. Does that answer your question?

F. G. Cottle.

Q Yes, and that is the reason then that you could answer this morning that you felt confident in the period of peak times the wells would supply that amount of oil?

A That is the reason, yes.

Q It was not based on any survey as to the amount of oil recoverable?

A Oh, no. Based on the functions of the wells, the characteristics of each well in the Valley. Perhaps I should explain, Mr. Plotkins, we have four engineers in the Valley.

(Page 4475 follows.)

Q There is no arrangement which will affect the pipeline, Mr. Cottle, Turner Valley, a producing company with refining facilities in Saskatchewan or Manitoba, are not likely to go to Montana to buy their crude requirements, are they?

A I would not think so. I said that in reference to Brandon this morning.

Q So if more independent refineries were in the field in Western Canada as an off-shoot of Turner Valley producers, the economics of the crude prices would not be such a vital factor for these particular companies?

A Well, that is a rather far-reaching statement, Mr. Plotkins.

Q What I mean is, we will take the Anglo Canadian as an instance?

A Yes.

Q It has a refinery in Brandon, Manitoba?

A Yes.

Q It is not likely that it is going to discontinue shipping Turner Valley crude into its Brandon refinery just because East Texas crude is selling at a dollar and that that dollar represents the laid down cost of less economic, of more economic value than their own crude so far as the posted field price is concerned?

A I think that would depend, Mr. Plotkins, how much less, certainly there would not be any sense of an independent producer having an independent refinery somewhere many, many miles away from Turner Valley shipping his crude oil to that refinery when it is only worth, well to be ridiculous, say 10 cents, just to confine it to himself, when he can sell it to local people for $1.30 or whatever the price may be.

Q That is under present conditions, who would he sell it to?

A To whoever would take it, there is no well in Turner Valley that has no market, Mr. Plotkins.

Q Well, why do you say that the Anglo Canadian would choose to invest money into a refinery and attempt to market their own crude oil if they could sell all their production at the regular field prices?

A Well, I do not know why they did, Mr. Plotkins.

Q It would be reasonable to assume that they are trying to protect their own crude markets?

A I do not know that it would at all, it may be that the company built that refinery wanting to get into the refining business or wanted to become completely integrated, I do not know.

Q You would not agree that would be for the purpose of assuring themselves a market?

A Well, I cannot agree, Mr. Plotkins, because I do not know.

Q You are familiar with the situation that exists in respect to the importation by the Texas Company into Alberta and Saskatchewan and parts of Manitoba?

A In a general way, yes.

Q You know that the reason they import is because they cannot make satisfactory arrangements with the major companies here?

A No, I do not know that at all.

Q You do not know that at all?

A No.

Q Have you ever heard that the Texas Company is operating their refinery at Sunburst to capacity?

A No, I cannot say definitely that they are. I could quite well imagine that they may be but I do not know, I do not know the capacity.

Q Have you ever heard mention by the officials of the Texas Company that they would be glad to buy products in Western Canada instead of manufacturing them in Sunburst?

A No, I certainly have not.

Q You never heard that?

A No.

Q What was the figure this morning that was shown as importations of refined products, 17.2%?

A Yes, those were Mr. Harvie's figures. I have not verified them yet.

Q Now, they represent in the main the Texas Company's importations?

A The Texas Company would be the largest importer.

Q Yes, would you say, knowing the situation as you do, that if the Imperial and B. A. Companies changed their policy towards the independent marketers and sold refined products to the companies that the Texas is now selling to, that that figure, the importations of the Texas Company would go down substantially?

A Yes, I am aware of that, I am aware of the fact that the Texas Company has jobbers.

Q Sure, who have quite a gallonage of gasoline and that market would be replaced by Turner Valley crude?

A In that case it would, yes.

Q And have you any idea as to what that market amounts to?

A Not offhand, no.

Q But you would say it is substantial?

A Yes, I would say it is substantial.

Q So that if we could induce the Imperial and B. A. to change their policies and to meet the competition, American

competition in this case, or the Texas competition, and sell the independent jobbers in the Western Provinces, that would substantially increase the amount of crude oil which would be available for this pipeline?

A I cannot say as to that, Mr. Plotkins, because I do not know that the Texas Company is selling gasoline to these people you are speaking of for anything less than the Imperial or B. A. or somebody else might be willing to sell it at.

Q You do not know the economics of the situation?

A No, I do not know at what price the Imperial or B. A. are willing to sell to the jobbers of the Texas Company

Q Well, assuming that the B. A. and the Imperial are not willing to sell at any price but the independents can buy and resell and that they change that policy to one of meeting the Texas Company, that would displace part of those importations?

A Assuming that the Imperial would meet the price of the Texas Company?

Q Would give a reasonable margin, you are familiar with marketing margins?

A Yes, I am familiar with marketing margins.

Q Well, assuming that the British American or the Imperial Oil were willing to give a reasonable market margin, you understand that the Texas Company is placed at a big disadvantage in marketing refined products in Alberta and Saskatchewan as compared with the Imperial and British American?

A Due to the fact that their laid down cost of gasoline is high?

Q Yes?

A Yes.

Q You realize that?

A Yes.

Q I mean you agree with that?

A Yes.

Q So that they are working at a disadvantage and yet they are able not only to take their own markets but take the jobbers' markets, at least a large proportion of the independent jobbers, and thus replace the Turner Valley crude?

A Yes, but I do not know that the Texas Company, Mr. Plotkins, is giving a margin to those jobbers any more than the B. A. or Imperial are willing to give. Now, I can answer you best on the assumption that the Texas Company is giving a wider margin than the B. A. or Imperial are willing to give but that is purely an assumption which may or may not be the fact.

Q Then that brings us to the point, the Texas Company then is not worried about the price of Turner Valley, the posted field price of Turner Valley crude?

A I think the only interest that the Texas Company has is insofar as it is reflected in the tank waggon prices of gasoline with which the Texas Company is competing. The Texas Company is naturally quite interested in the price of gasoline in this territory.

Q True, but, Mr. Cottle, you have heard Mr. McGrath and Mr. Woolley definitely state that there was no relationship between the cost of crude and the selling price of gasoline, so the Texas Company is not concerned with the selling price of gasoline, in purchasing their crude?

A I do not recall Mr. McGrath or Mr. Woolley making that statement, Mr. Plotkins. They both made the statement

that they were not at all interested in the price of gasoline, that that was a matter for another department, but I am not saying that the price of gasoline is not necessarily related to the price of crude. I am just saying that Mr. Woolley and Mr. McGrath did not make that statement, to my recollection.

Q So that so far as the Texas Company is concerned the price of Turner Valley could go up or go down and they would still continue to make imports into the Western Canada markets?

A Yes, there is nothing to stop them importing all the gasoline they like, regardless of the price, either of crude or the refined products.

MR. PLOTKINS: All right, thank you.

THE CHAIRMAN: Any further questions?

MR. FRAWLEY: I want to clear up some figures which Mr. Harvie was putting to you this morning, so there will be no misunderstanding, he was going to show you the notes that he was using and he put it to you that out of what he called the total offerings, the total offerings in Alberta in 1938 which he put, gave to you as 78,322,772 gallons, of that amount the sales of Montana products were 13,465,631, do you remember him putting those figures to you?

A Yes, which is 17.2%.

Q Which was 17.2%?

A Yes.

Q Now, I call your attention to Exhibit "173" filed this morning, table 6 of that Exhibit shows, it is a Dominion Bureau of Statistics' publications, table 6 shows the imports

into Canada of gasoline, and it shows among other things importations into each Province in Canada of gasoline, importations from the United States' points, I presume they mean?

A Well, that is the only place it could come from.

Q Of gasoline, and also natural casing-head, and what are the figures shown in Exhibit "173" as having been imported into Alberta, gasoline and casing-head respectively?

A The total gasoline imported into the Province of Alberta in accordance with page 4 of Exhibit "173" in the year 1938 were 10,676,888 gallons.

Q Now, casing-head?

A The casing-head for the same period was 358,208 gallons.

Q Now, have you the figure that, we have been talking about 17.2, did you say?

A 17.2%.

Q Have you the figure which you can tell me, what percentage can you give me of the figure with which you can compare that importation into Alberta from the United States, the figure of 10,676,888?

A Just Mr. Harvie's figure of 78 million.

MR. HARVIE: I think rather than have the figures too confusing, there would be apparently a discrepancy there of some three million gallons, on the figures which I gave and the figures which Mr. Frawley is now quoting, and my suggestion is that in fact there is no discrepancy, if these complete figures were known. I have the figures that Mr. Frawley is reading from, the heading is "Gasoline lighter than 82.8236 specific gravity, plus casing-head", was 10 million plus the 368,000. The figures I gave this morning were the total sales of all products imported from the States, which would be inclusive.

Just to illustrate, of the crude brought into Coutts and refined there and sold in Alberta.....

A The 78?

Q MR. HARVIE: Yes, the 78.

MR. FRAWLEY: You mean both the 78 and the 13 you gave this morning?

MR. HARVIE: The figures I gave this morning are the entire Alberta consumption of gasoline products.

MR. FRAWLEY: Taken from where?

MR. HARVIE: They were compiled by the British American Oil Company. Now, I am informed that those are correct figures. Just where they got them from I do not know but the whole point is this, the other figures are only partial figures; in some cases only taxable products, in other cases taxable plus casing-head and all down the line. I am suggesting that possibly you could assist the Commission if Mr. Cottle would take all the figures and show that these figures used are comparable, and total figures and not partial figures.

MR. FRAWLEY: I am quite certain Mr. Harvie's clients have sent him actual figures, but unless we know how they are made up and what they include it is hard to compare them with figures published by the Government Board.

MR. HARVIE: In addition to the figures you are putting, of the 10 million, my figure does include the gasoline that is made from crude imported.

WITNESS: Which figure, Mr. Harvie?

MR. HARVIE: Both figures.

MR. FRAWLEY: The 13 million.

MR. HARVIE: The 78 million includes every bit of gasoline products sold in Alberta and the 13 includes every bit of gasoline products sold from Montana crude, whether it is refined in Alberta or in Montana.

A Oh, I see.

MR. FRAWLEY: That is what I want.

A I cannot verify your 13 million figures then.

MR. HARVIE: I am only saying it is not necessarily in dispute.

A That is why I said this morning the 13 million figure strikes me as being possibly the total importation through Coutts, which would not include the crude oil.

MR. HARVIE: On that point, when we compare that portion of the Alberta market which is being supplied by Montana crude, are not my figures the correct ones to take?

A Well, if they could be verified.

Q Yes, granting that?

A It makes no difference, Mr. Harvie, whether you know that there are so many barrels of crude coming into Alberta plus so many barrels of gasoline and refined products coming into Alberta or whether you express the sum of those two figures as one, namely, the 13 million.

Q Yes, one is in gallons and one in barrels and it is hard to correlate them.

A They are both the same thing, if you put them on a common denominator.

Q There is no place that I can see where they have been put on a common denominator except in the figures which I have given.

MAJOR LIPSETT: Is there any figure in Mr. Frawley's figures showing crude imported, which might make the difference?

[illegible]: [illegible] million [illegible] over [illegible] of gas. [illegible] in [illegible] [illegible] every [illegible] of [illegible] [illegible] [illegible] from Montana crude. [illegible] [illegible] [illegible] in Alberta or in Montana.

[illegible]: I see.

[illegible]: That is what I want.

[illegible] [illegible] [illegible] million barrels then.

[illegible]: I am only saying it is not necessarily in dispute.

[illegible] in [illegible] I said [illegible] are 15 million figures [illegible] [illegible] being possibly the total importation from Montana, which could not include the crude oil.

[illegible]: On that point, then [illegible] the [illegible] of the Alberta market which is being supplied by Montana crude, are not my figures the correct ones to use?

[illegible], it may could be verified.

[illegible]: [illegible]

[illegible] [illegible] conference, Mr. Davis, whether you know when there are [illegible] of crude coming into Alberta [illegible] so many barrels of gasoline and refined products [illegible] Alberta or whether you [illegible] the [illegible] of those figures are one, namely, the importation.

[illegible], one is in millions and one in barrels and it is hard to correlate them.

They are both the same thing, if you put them on a barrel [illegible].

There is no place that I can see where they [illegible] [illegible] [illegible] [illegible] [illegible] [illegible] [illegible] [illegible] [illegible].

[illegible]: Is there any [illegible] [illegible] figures [illegible] [illegible] [illegible] [illegible] [illegible] [illegible]?

MR. HARVIE: Yes, there is, that is the point, Mr. Commissioner, I say that should also be included in addition to the figures which Mr. Frawley has given, if those are included, and then there is no discrepancy.

MR. FRAWLEY: Here we have it, on this Exhibit "173", it shows there was imported into Canada in the calendar year 1938.....

WITNESS: Alberta.

Q MR. FRAWLEY: Imported into Alberta, it shows all the Provinces of Canada, it shows there was imported into Alberta in 1938, 7,675,838 gallons.

MR. HARVIE: I think I have that figure too.

MR. FRAWLEY: We have it now as 7,675,838 Imperial gallons of crude imported into Alberta.

MAJOR LIPSETT: That would make the discrepancy as bad on that side as on the other side.

MR. HARVIE: You cannot directly convert crude into gasoline.

MR. FRAWLEY: No, you see, the difficulty there is, well, Mr. Cottle, you have some knowledge of these importations, does that indicate that that crude may not all have remained in Alberta?

A That is my understanding, I think, perhaps, I can clear this whole matter up by finding out exactly what the total taxable sales were in Alberta for the year 1938.

Q For the calendar year?

A For the calendar year 1938. I can get that very quickly. I can also obtain the information as to the exact amount of gasoline and distillate and taxable products which were

imported into Alberta during the year 1938 and how much of that gasoline was exported into Saskatchewan during the year 1938, if that will be helpful to the Commission, I will be glad to prepare it.

Q MAJOR LIPSETT: Mr. Cottle, as a matter of fact, this figure of ,7,675,000 gallons of crude, in table 3 of Exhibit "173", if that were reduced to gallons of gasoline, your two figures would be very close together, you would have to take about 40% of that to bring it to gasoline, would you not?

A Oh, to bring it to gasoline?

Q Yes?

A Oh, I do not know the basis of Mr. Harvie's figures at all.

Q MR. HARVIE: I might just explain there, that according to the figures which I have which I will supply to Mr. Cottle for checking, of that figure which has just been given you, there has been 567,870 gallons which have been re-shipped to Saskatchewan.

MAJOR LIPSETT: That would bring your figure then to about 7 million gallons of crude, which would be approximately 4 million gallons of gasoline, would it not, which would make your figures and Mr. Frawley's practically the same.

MR. HARVIE: Yes, I think you will find they come very close.

THE CHAIRMAN: Then, if so, we need not worry about it. Now, what else?

MR. HARVIE: There is just this thing, Mr. Chairman, to see that you do use the correct figures, some are taxable and some not and my suggestion is that the only complete figures which have been put in are the ones which

I put in, and I think those are the ones which should be taken.

THE CHAIRMAN: If they are the same or very close, it will not matter which we take.

MR. HARVIE: It will not if you do it this way but if you take Mr. Frawley's figures, there is so much coming in in crude, you have to estimate how much gasoline can come out of that and how much gasoline went from Alberta to Saskatchewan.

THE CHAIRMAN: You say you are going to show Mr. Cottle, you are giving the Commission accountant how it is made up?

MR. HARVIE: Yes.

THE CHAIRMAN: And we will take his wordfor it, next.

MR. FRAWLEY: Now, Mr. Chairman, I want to file information in telegraphic form with respect to the gasoline sales in Saskatchewan for the year 1936.....

THE CHAIRMAN: Do you need Mr. Cottle, just a minute, Mr. Cottle.

Q MAJOR LIPSETT: Mr. Cottle, I just want to ask you a question or two, you remember earlier in the day you gave us a computation of Imperial and British American as 15,300 barrels per day?

A 15,300, yes, I think that is the figure.

Q And to that you added for independent refineries 400 barrels and 1,000 barrels?

A Yes, 400 being for North Star.

Q I have the details, but it gave a total of 16,700?

A Yes.

Q Barrels per day?

A Yes.

THE CHAIRMAN: You added the Lion Oils, 300.

Q MAJOR LIPSETT: Yes, or approximately 17,000. Now, Mr. Plotkins was putting to you then, that the independent refineries last year sold 27.7%?

A No, I misunderstood him if that is what he said. I thought he meant the independent companies which includes others, if he confined his question to refineries then his percentage of 28 is completely out of line.

Q You still think your figures are correct?

A Oh, my figures are correct, I know.

Q As to what the independents would use of crude oil?

A Yes.

Q But his figure of 27% would increase your figure for refineries considerably?

A Yes. I assumed he did not mean independent refineries. Had he meant that I would not have agreed with the suggestion at all.

MR. PLOTKINS: Mr. Commissioner, Mr. Cottle agreed to the figure of 2850 barrels a day though for the independents' share of the market, would that check with what you have?

MAJOR LIPSETT: No, he gave a figure of 1700 barrels a day.

WITNESS: The figure of 2850 barrels is the figure which Mr. Le Sueur says will be the quantity of crude oil which he will use at his Sarnia plant to displace Turner Valley in Manitoba.

THE CHAIRMAN: Daily reduction at the Regina refinery.

WITNESS: That is right.

MR. FRAWLEY: I am reading into the record two telegrams, one from the gasoline tax official at Regina, dated to-day, it is from Mr. F. E. Olson to myself.

THE CHAIRMAN: Who is he?

MR. FRAWLEY: He is in charge of the gasoline taxes, so I am informed, in Saskatchewan.

THE CHAIRMAN: And the wire is dated?

MR. FRAWLEY: To-day, the 14th of February.

THE CHAIRMAN: And it is addressed to you?

MR. FRAWLEY: Yes, Mr. Chairman.

(TELEGRAM PRODUCED AND MARKED EXHIBIT "178").

MR. FRAWLEY: I will read the telegram.

"Saskatchewan gasoline sales year 1936 stop 45,966,233 gallons year 1937 stop 46,249,140 gallons year 1938 stop 64,725,624 gallons."

I want to say, and my friend has already called my attention to the fact, that this is taxable gasoline sales, that is all that he keeps any track of and in addition to that there are the heavy distillates and the heavy motor fuel, and the same information with respect to Manitoba is contained in a telegram dated to-day.

MAJOR LIPSETT: Before you pass to that, Mr. Frawley, is that 1938 figure, is that the eleven months?

MR. FRAWLEY: No, that would be certainly complete, sir.

MAJOR LIPSETT: Because in the figures which we got earlier, it is around 46 million gallons for the eleven months, but for 1938 we got a net figure of 66 million gallons. As I took them down, 1936 and 1937, they were around 46 million, and for 1938 it was 63 million, and for

the full year,.that was for Saskatchewan, was it?

MR. FRAWLEY: Yes, for Saskatchewan, Exhibit "173", the Ottawa publication shows Saskatchewan for the first eleven months only of 1938, 63,234,000.

MAJOR LIPSETT:- Yes, and Mr. Harvie, I think it was, gave us the figure of 76 million for the whole year.

MR. FRAWLEY: For Saskatchewan.

MR. HARVIE: No, that was inclusive of all products, Mr. Commissioner.

MR. FRAWLEY: He was talking, you see, about that. That is true, but I, at the moment, have no information about these non-taxable products in Saskatchewan. Now, Mr. Plotkins indicates a way to get them and we will see what we can do.

MAJOR LIPSETT: But, Mr. Frawley, when we got the figure, you see, of 63 million, Mr. Harvie then got up and said he had figures for the full year, and as I understood, bringing that 63 million up to 76 million.

MR. HARVIE: I think my statement was that that was the figure for the full year including all other products, taxable and non-taxable.

MR. FRAWLEY: It is not the figure which appears, that 63 million, it is more, because it includes the non-taxable products.

MAJOR LIPSETT: As well as being for the full year.

MR. FRAWLEY: Yes, but the figures I am now giving you are for the full calendar year, it is not very much different, and Mr. Morrison and I were wondering why for 1938 it was 64,725,624.

Now, for the Province of Manitoba, the details of this Exhibit, Mr. Chairman,

F. G. Cottle.

are contained in a telegram from E. W. Watts, the Chairman of the Manitoba Tax Commission, dated the 14th of February, to myself.

(TELEGRAM PRODUCED AND HERE MARKED AS EXHIBIT "176".)

MR. FRAWLEY: And he says:

"Gasoline sales in Manitoba for 1936 were 29,500,000 gallons for 1937 33,000,000 gallons for 1938 36,750,000 gallons."

(Page 4491 follows.)

MR. FRAWLEY: Gasoline sales in Manitoba for 1936 were 29½ million gallons; for 1937 33 million gallons, and for 1938 36-3/4 million gallons. I want to explain that telegram was copied, and copied for easy reading, and they were turned from halves into hundred thousands. 29,500,000 gallons for 1936, for 1937 33,000,000 gallons and for 1938 36,750,000 gallons. Now that, of course, again is taxable products, taxable petroleum products only, and we will just see how it compares with Exhibit "173", for the first 11 months in Manitoba the total was 36,130,000 gallons. That is at least the same figures they are talking about. My friend also called my attention, I presume, to the fact these do not include the heavier products which are not taxable. You remember, Mr. Chairman, you asked this morning about the apparent discrepancy in the Saskatchewan figures that my friend Mr. Nolan put in from the Dominion booklet, that is as to why that 77,000,000 gallons in 1930 might be out. So I communicated with.....

MR. NOLAN: The Chairman asked the reason for the sudden drop.

MR. FRAWLEY: I should not say out. It seemed to be out of line with the other years.

MR. NOLAN: There is no discrepancy.

THE CHAIRMAN: All right, gentlemen. There is no offence I am sure either way. Let us get on.

MR. FRAWLEY: So I am now submitting a telegram which has just come in and it is from the,

J. R. McDonald, Assistant Commissioner of Revenue. Well I do not know what he calls himself. He signs himself Assistant Commissioner. I telephoned him. He is the Chairman of the Gasoline Revenue Department. He says - he goes back to 1928 when his own Commission came into force and he says "Gasoline consumption 1928, 8 months, 58,542,857 gallons. Year 1929, 75,795,629 gallons. Year 1930, 76,630,024 gallons., Year 1931 49,449,698 gallons. Decided drop in consumption accounted for by 1931 crop failure resulting in little gasoline being used for harvest purposes. J. R. McDonald, Assistant Commissioner."

TELEGRAM IN QUESTION IS NOW MARKED EXHIBIT "177".

MR. FRAWLEY: Now, Mr. Coultis.

MR.HARVIE: May I make a statement, Mr. Chairman, in connection with these things, these wires which are all being filed. I think that care should be taken to see that the Commission accountant or some person explains the figures in relation, in one way or another. For instance we have not got the advantage of cross-examining these people and explaining these things. We are consenting to them going in, but my view is they are of no value and may be quite misleading unless they are thoroughly explained and much more thoroughly explained than they have been. And then the difference between the taxable products in the various Provinces, and also in connection with the total consumption as against those taxable products. It makes it very difficult to compare the figures unless you have them all on the same basis, and I think it

should be drawn to the Commission's attention that particular care be taken.

THE CHAIRMAN: We want particular care to be taken. We will do our duty as we see it, and if you see any discrepancy at any time by all means put it forward.

MR. HARVIE: I have in the two cases, as far as the Saskatchewan figure. As to the Manitoba figure I have not got it.

THE CHAIRMAN: I will be glad to hear any contradiction by any evidence, or any criticism or any arguments.

MR. HARVIE: I am just saying this as far as the figure in 1938, according to the evidence put in by Mr. Frawley, is just 4 million odd. The figure I suggest as a more correct one and should be used is the 6 million odd. However, both figures are correct.

THE CHAIRMAN: That is the figure you keep adverting to, and all you have to do is to establish before this Board that it has a sound foundation and your figure will be taken.

MR. HARVIE: I am suggesting that the same comment is applicable to the Manitoba figure which I have not got. I have not given the relative figure but Mr. Frawley maybe can get that.

MR. FRAWLEY: I do not know how we will get it.

MR. HARVIE: I told you I will be glad to have my Company show you where you can get it.

THE CHAIRMAN: If your Company shows Commission Counsel before the conclusion of this Hearing there is reason he should accept that figure, we will gladly accept it. Until that time comes we won't. Let us be clear.

MR.HARVIE: I am just asking. I want to make it clear there is that situation, and you can havethe Commission accountant either check that up and find my figure is correct or incorrect. Also I have not got the figure for Manitoba, but I think maybe the same applies to that.

THE CHAIRMAN: We will be glad to have you put before our accountant the reason for arriving at the figures you put before us, and if he accepts them all right, and of course, we will.

.....

SAMUEL G. COULTIS, recalled:

BY MR. NOLAN: The matter that has been left, sir, for discussion with Mr.Coultis, was to prepare for the assistance of the Commission an estimate on the amount of money which would have to be expended in divorcing the terminal facilities of the pipe line away from the present Imperial Oil yard and plant.

THE CHAIRMAN: Yes.

MR.NOLAN: As a result Mr. Coultis has made what of course he will proceed to say in evidence is only his best estimate. Have you sufficient copies of this?

A Yes sir, I think so.

MR. NOLAN: I tender that, sir, as an exhibit.

ESTIMATED COST OF A SEPARATE PIPE LINE TERMINAL IS NOW MARKED EXHIBIT "178".

THE CHAIRMAN: That is a severance from the Imperial at this end?

MR. NOLAN: Yes. Is there some doubt in the Commission's mind as to our having been asked to do this.

MR. COMMISSIONER LIPSETT: Was this by way of explanation of the $35,000.00 rental.

MR.NOLAN: No, it was not in explanation of anything. What occurred in a discussion here was "Well what would it cost the Royalite Oil Company to establish their own terminal facilities apart altogether from the Imperial Oil Company." That is my memory of it.

THE CHAIRMAN: We are glad to have it anyway.

M. NOLAN: We did it because we were asked for it.

THE CHAIRMAN: Oh yes.

Q MR.NOLAN: The first item, Mr. Coultis, that I read is three 80,000 barrels tanks complete with Foamite equipment, steam lines, heaters, flame arresters and snuffers, and including fire walls and foundations $180,000.00. Well now, the first thing I would say to you is that the tanks which are larger. Now, there are two 80,000 barrel tanks and one 40,000?

A Yes.

Q And you are increasing the storage?

S.G.Coultis.

A I would increase the storage if it was necessary to build a new terminal.

Q Why would you?

A Because I think possibly it would be a better investment while you are building a third tank to build an 80,000 barrel tank in preference to a 40,000. It would give more storage.

Q One 10,000 barrel pressure tank including all lines, safety valves, foundations, fire walls, complete, and including pump out lines, $21,000.00. Is there a pressure tank there now?

A That is the item that appears in this year's budget. There is not one there now.

Q You have explained that in your evidence on the budget, that is as to why you have to have this?

A Yes sir.

Q You think that is necessary?

A Yes.

Q A pump house fully equipped, including heaters and lighting equipment, $23,000.00?

A Yes sir.

Q That is a necessity is it?

A Yes sir.

Q A boiler plant.....

THE CHAIRMAN: All these are there now, I take it.. You have pointed to the difference in the tanks?

A They are, sir, but such things as the pump house and the boiler plant is a part of the refinery itself at the present time.

Q MR. NOLAN: What the Chairman means is

whether or not you are putting something into this estimated cost which is not actually there in use now, irrespective of who owns it?

A No. Not that I know of.

Q A pump house fully equipped, costing $23,000.00, is that necessary?

A Yes sir.

Q A boiler plant capable of supplying steam for fire fighting purposes, and pumping and heating of oil, $15,000.00. That is necessary?

A Yes sir.

Q Water and light to be purchased from the city if available: if not, for either obtaining water supply or laying necessary lines to connect with some other water supply $10,000.00. That seems a lot of money for light and water.

THE CHAIRMAN: I do not understand that.

Q MR. NOLAN: What does that mean?

THE CHAIRMAN: You are not going to pay $10,000.00 to put in a water pipe in the city. The city does that if you take the service?

A I mean by that, sir, in the first place I do not know where the terminal would be located. In the event it is not located in the city, or adjacent to the water supply system in this city, or you take the electric light service and power service, if called upon to instal your own water system and your own light plant it would at least require an expenditure of $10,000.00. That is my estimate.

Q MR. NOLAN: If it were inside the city

limits, and the water and light were available it would not cost anything, would it?

A Yes sir, I think it would, providing you were at some distance from the city's mains, referring to the water, in all probability you would be called upon to put in your own water mains, which would be a considerable size, and would require burying to a depth of 7 feet probably, and also probably there would be a cost or charge for the power lines.

Q But the outlay of $10,000.00 would be seriously reduced?

A In that event, yes sir.

Q That is an outside figure?

A I believe it would be. It would depend on how far you have to run that line.

Q Yes, I understand. Office, test room, and shelter for attendants of tankage $3500.00. That would be a necessary building or buildings?

A Yes sir.

Q Acquisition of land, fencing and grading. $19,000.00. How much land did you take into consideration?

A I estimated 40 acres.

Q How much an acre is that?

A That is about 350.00 an acre. I haven't any idea what you would have to pay for acreage in some unknown setting, particularly if it was in the City of Calgary it would cost you more than that.

Q That is a conservative estimate is it not?

A I believe it is.

Q Lines to pump house $4500.00. That is a necessary item?

A Yes sir.

Q Railway siding $5000.00. That means the construction

of a loading platform?

A That means two spurs, one on each side of the loading racks so that you could run in your empties and load on the other track.

Q Now the next item, moving and extending trunk lines to new site plus lines in the terminal yard, $35,000.00. Does that mean to say you have to move the trunk lines themselves, Mr.Coultis?

A That means, sir, that every line, each one of the three trunk lines would have to be diverted to that new location and I am assuming that that would be within one mile of the present end of the trunk line.

Q All right, and to move them and to extend them would necessitate an expenditure on your estimate of $35,000.00?

A Plus inter-tanks and inter-pumps - well inter-communicating lines in the terminal yard extending from the pump house to the tankage.

Q Yes?

A The whole thing could possibly be done for $35,000.00, if not more than a mile distant.

Q Then there is a car steam and cleaning shed and equipment $5000.00?

A That is open for question. That is the one item there that the refinery at the present time has a car cleaning and heating shed where tank cars can be run in providing there is ice found in the bottom of them or in the valves or in case they get a car in there that has transported some product in which you would not want to place petroleum products without cleaning.

Q All right. You say there is one there now?

A There is one in that yard, yes sir.

Q You say it is questionable whether you would have to have another one?

A That is the only item in that list that I would question. If the customer shipped in perfectly clean tank cars or cars that had had a product in, or other products in which they did not care whether their crude was mixed with, that might not be needed.

Q But supposing they did care?

A Well then that is necessary. I think a complete terminal should be equipped to take care of tank cars, particularly if you get a defective tank car where it would mean steaming and cleaning in the winter time before you could put a repair mon into it.

Q You have contingency and miscellaneous, an item of $5000.00, That is to cover anything you have not thought of is it not?

A Yes sir.

Q Then you have a note at the bottom." This is only a rough estimate prepared by Mr. S.G.Coultis without obtaining actual costs of material and equipment involved." I think you were asked by the Commission to give a rough estimate?

A I was asked by the Commission and I made a horseback guess of the cost of between $300,000.00 and $400,000.00. I now prepared this statement to break it down to see what it would look like.

Q That is all, thank you.

Q MR. COMMISSIONER LIPSETT: The only new thing really on this expenditure would be an 80,000 tank instead of a 40,000, and the 10,000 high pressure tank?

A Yes.

Q And you would scarcely recommend it as a wise expenditure of money under all these circumstances would you?

A No sir.

Q It does not seem wise?

A My idea in preparing this list was to endeavour to make a picture of what a satisfactory terminal would amount to.

THE CHAIRMAN: Mr. Coultis will be available tomorrow if he should be wanted? I suppose he has other things to do?

MR. NOLAN: It would be a little awkward if that were in the afternoon. He can be here in the morning. But he had a trip to make in the afternoon. But if he were required for the morning he could come at half past ten?

THE CHAIRMAN: yes.

MR. NOLAN: He will be here at half past ten, sir.

MR. FRAWLEY: Mr. Nolan was to have Mr. Burns here, but apparently he thought Mr. Coultis would last the rest of the day.

THE CHAIRMAN: Let us occupy the time in seeing that when we think we are through we will be. Mr. Burns is making some break-down and he was producing a manual of instructions.

MR. FRAWLEY: That is right. He was making a break-down and he was producing one or some of the statements which he sends monthly to Mr. G. Harrisoh Smith, and he was producing a manual. I think that is all Mr. Burns was producing. Then Mr. Humphries was to supply a statement.

MR.NOLAN: What happened was this, there was a statement asked from Mr. Maw to take the 11.85 figure and add to it what he thought should be added to it for the increased amortization charges and to file a statement containing that. That work has been done and that may be filed without any delay.

MR. FRAWLEY: Mr. Humphries is going to file it?

MR. NOLAN: Mr. Maw is now in town and he will file that.

MR. FRAWLEY: All right. Then there is to be a list of the Standard Oils of New Jersey subsidiaries filed by Mr. Nolan, if that can be obtained.

MR. NOLAN: I was not asked for a list of all the Standard Oil subsidiaries.

THE CHAIRMAN: I have a note here "Subsidiaries". I did not know whether you were giving it, Mr. Nolan, or Mr. Frawley. I thought there must be some publication that would have all that.

MR. NOLAN: There may be.

THE CHAIRMAN: About the Humble Oil Company you were asked.

MR. NOLAN: Yes, and I am in a position to answer. The Humble Oil and Refining Company is a subsidiary of the Standard Oil of New Jersey Company.

THE CHAIRMAN: That disposes of that. All right. Then if that book is available it is to be filed, by which one of you I do not recall, but if either of you can find it no doubt you will produce

it to us.

MR. FRAWLEY: Yes, Mr. Chairman.

THE CHAIRMAN: Mr. Nolan, you also were to consider that pipe line connection agreement with the Lion Oil Refinery. You remember that was left in abeyance?

MR. NOLAN: Yes.

THE CHAIRMAN: We asked Mr. Plotkins not to pursue the examination at that moment until you had had an opportunity of considering that?

MR. NOLAN: Mr. Plotkins informs me and perhaps I may say with his permission that he has appointed a Mr. Sweeney to negotiate the proposed agreement with the Company, and that Mr. Sweeney has gone to Vancouver and upon his return will continue the negotiations with the Company with a view to seeking a settlement of the difference which exists.

MR. PLOTKINS: That is right.

THE CHAIRMAN: When does Mr. Sweeney return, Mr. Plotkins?

MR. PLOTKINS: I am informed he will be back here in a couple of days. He had to suddenly leave and that is why the negotiations were broken off.

THE CHAIRMAN: It is to be hoped we will be through with the evidence in this case before a couple of days, on this phase of it.

MR. PLOTKINS: I may say it would not have been possible for Mr.Sweeney to come to any arrangement because Mr. McLeod informed him that he would have to get definite instructions from Toronto before he could do anything about it, and that is where the matter stands

now.

THE CHAIRMAN: You understand, Mr. Plotkins, we do not want to make a finding in respect to a collateral matter which may, by the parties themselves, be made quite unimportant by virtue of their private treaty.

MR. PLOTKINS: That is correct, sir.

THE CHAIRMAN: If it is not a matter which you finally come to an agreement on, we would want to hear your evidence in reply to that given by Mr. Coultis, the trunk line. You can think it over over night gentlemen. My only desire is to have it completely dealt with, if it must be and if it need not be to have that known. All right, Mr. Nolan. That is, I think, the sum total of your commitment is it not?

MR. NOLAN: Yes, I know of nothing else. Mr. Burns' material is prepared and will be presented.

THE CHAIRMAN: Mr. Harvie, you were to give a list of the shareholders?

MR. HARVIE: I was to get a list of the stocks' ownership and shareholders, which I understand has been sent by air mail.

THE CHAIRMAN: It should be here any time?

MR. HARVIE: Yes.

THE CHAIRMAN: Then you were going to get the working papers behind your map?

MR. HARVIE: That, I was informed this morning will be leaving Toronto by air mail either today or tomorrow, as soon as they are through with them after

working on the new statement we are to get, and we will file it.

THE CHAIRMAN: That is what we had termed the rough estimate?

MR.HARVIE: Yes. That, I was informed also this morning would be forwarded from Toronto not later than tomorrow or the following day by air mail, but I have wired at Mr. Frawley's suggestion today to have a summary of it wired to me so I could present it tomorrow. There was one other thing I have a note of, in connection with Mr. Gaby's wire of January 25th, which did not gibe entirely with Mr. Woolley's evidence in connection with the use of the Toronto Pipe Line. Mr. Gaby's wire stated that it was used solely by the parent company. Mr. Woolley stated that he understood it was also used by some independents. That information is also on its way and is expected here tomorrow.

THE CHAIRMAN: Mr. Frawley, you had the C.P.R. tariffs.

MR. FRAWLEY: Yes.

THE CHAIRMAN: And you were filing something about the five new wells.

MR. FRAWLEY: Amending the statement on the wells under contract. We will be filing a statement showing Mr. Cottle's estimate that he made thismorning .

THE CHAIRMAN: Yes. Are you showing, so as to bring your picture out, whether or not these new wells are under contract, and if so to whom?

MR. FRAWLEY: That is what I mean. We will amend the statement to include these new wells, and showing the companies to which they are under

contract.

THE CHAIRMAN: It looks as though there would be no serious impediment then as far as the documentary things are concerned to closing this Hearing?

MR. FRAWLEY: No. There are some other statements Mr. Morrison has to file.

THE CHAIRMAN: Yes, but I mean the things that are behind us. All right. Now we have Mr. Morrison and Mr. Burns.

MR. FRAWLEY: We have Mr. Burns and Mr. Morrison, and Mr. Maw for a short statement.

THE CHAIRMAN: Just to introduce that statement?

MR. FRAWLEY: Yes.

THE CHAIRMAN: Any other witnesses any of you know about, so we may have some idea of how we are getting along?

MR. NOLAN: No.

MR. FRAWLEY: Mr. Plotkins has been mentioning to me evidence about the Montana situation in regard to the pipe line and he left me some correspondence this morning which certainly does not speak for itself, but which he may be able to put in evidence, if he went back on the stand himself. It is just to what extent it is under commitment to the Commission to complete the statement that he made - really matters he brought up in cross-examination if you will remember, Mr. Chairman.

THE CHAIRMAN: Yes.

MR. FRAWLEY: I remember at one stage you told him that there was no danger but that the Commission would hear him. That has been left somewhat indefinite. For my part I have been wondering to what extent I should go in the event.....

THE CHAIRMAN: And prove what?

MR. FRAWLEY: And prove among other things that one line in Montana in the Montana fields has been taken up and is not now available. It seemed to bear to some extent upon the availability of the Montana crude to enter Alberta.

(Go to Page 4508).

THE CHAIRMAN: What line is that?

MR. FRAWLEY: That is the Illinois Pipe Line.

MR. PLOTKINS: All lines, the three lines.

MR. FRAWLEY: Yes, all lines, including Mr. Harvie's line, the Toronto Pipe Line, I suppose insofar as the Montana threat was brought into the discussion.

THE CHAIRMAN: Yes.

MR. FRAWLEY: That it should be completed and certainly nobody is better able than Mr. Harvie to tell us the last word about the Toronto Pipe Line, that it is there and how it has been taken up and everything.

MR. HARVIE: Mr. Woolley's evidence I think was that it was still there and available so far as the line from Cutbank to Coutts is concerned.

THE CHAIRMAN: He didn't seem to know about it.

MR. FRAWLEY: No, that is right, Mr. Harvie, that is a very simple matter and if you would be good enough over night to find out precisely for us whether the Toronto Pipe Line is still there in fact, to move oil from Cutbank to Coutts.

MR. HARVIE: I am informed that it is but I will find out.

MR. PLOTKINS: Mr. Harvie, I can state this, that the gathering part has been sold to one individual producer, the trunkline has been cut in two and part of it reversed and a tariff published by the Montana Railway Commission to carry oil from certain of these, backwards into Cutbank, that is my information

as to that particular pipeline.

MR. FRAWLEY: With that information, Mr. Harvie, if you will get a complete statement with respect to the Toronto Pipe Line.

THE CHAIRMAN: Yes, surely it can be obtained with accuracy and not on speculation. Mr. Woolley said so far as he knew and I think he thought he was right but still if we can find out exactly through you, Mr. Harvie.

MR. HARVIE: Yes.

THE CHAIRMAN: Now what else was it Mr. Plotkins wanted to know, we will try and find out these things.

MR. PLOTKINS: I have a publication that recites from time to time the conditions of these different pipelines and all I felt, for the record, was to place the different pipelines in the proper picture, was to file these statements themselves and that would place definitely the position of the pipelines, that could transport, that were in a position previous to now to transport oil and become a factor in the crude situation.

MR. FRAWLEY: Mr. Plotkins, rather than reading newspapers, are there any of these lines that are subsidiaries of Mr. Nolan's clients, so that he can get a similar statement for us such as Mr. Harvie is going to get?

MR. PLOTKINS: You mean Mr. Nolan.

MR. FRAWLEY: Yes.

MR. PLOTKINS: Mr. Nolan is in a position to

ascertain the facts accurately as to the Transit and Storage Pipeline and as to the Montana Pipeline.

THE CHAIRMAN: Those are the three then, are there any others?

MR. PLOTKINS: No, the Montana Pipeline is a subsidiary of the Transit and Storage and then there is another one, that is the Illinois Pipeline and I have a letter here showing the status of that one, from the company itself.

MR. FRAWLEY: Let us make some progress, you say Mr. Nolan can tell us accurately with respect to the Transit and Storage and its subsidiary the Montana Pipeline Company.

MR. PLOTKINS: That is correct.

MR. NOLAN: Is that two pipelines or one?

MR. PLOTKINS: Yes, they had two, they acquired one.

MR. NOLAN: I want to know first of all what I am to get, whose pipeline is it?

MR. FRAWLEY: Tell Mr. Nolan about the pipeline, put it in the form of a question.

MR. PLOTKINS: Well all I know is that the Montana Pipeline was the original pipeline and it ran from the Keevin-Sunburst field to a gathering system and a storage farm and then to the centre of the field, through the trunkline into Coutts and served the Maple Leaf Refinery, that is one line. That was acquired at the same time as the refinery of the Maple Leaf Petroleum by the Standard Oil of New Jersey and that was continued under the name of the

Montana Pipeline. Then the Transit and Storage comes into the picture in Montana, for the purpose of gathering and supplying or transporting crude to the Imperial Oil Refinery at Calgary and it built its own pipeline because the other was a small line and could not handle the traffic, so it built the Transit and Storage system and that system has only been partly dismantled.

THE CHAIRMAN: What is it called?

MR. PLOTKINS: It is called the Transit and Storage Company.

MR. NOLAN: It is not there, you say.

MR. PLOTKINS: Yes, it is there, it is being sold piecemeal.

THE CHAIRMAN: There may be parts of it, some of it may be sold and so on but you want to know what is in actual use.

MR. PLOTKINS: What I want to show is that these pipelines should not be considered as capable of use for our competitive picture.

THE CHAIRMAN: And then the third one was.

MR. FRAWLEY: The Illinois.

MR. PLOTKINS: Mr. Frawley is in a position to definitely tell us the status there.

MR. FRAWLEY: By virtue of these communications between Mr. Plotkins' company and the Illinois Pipeline company?

THE CHAIRMAN: Yes.

MR. FRAWLEY: It is supposed to be signed by the Illinois Pipeline Company at Shelby, Montana.

THE CHAIRMAN: What does it say?

MR. FRAWLEY: It refers to Mr. Plotkins' letter. Mr. Plotkins wrote a letter on the 7th of October, 1938 to the Illinois Pipeline Company, Shelby, Montana, attention of Mr. W. J. Hagist.

"Dear Sir:

We are desirious of arranging disposition of the Lion Oil Producing Company crude oil storage in your pipe line which as at September 30th amounted to 2092.32 barrels, and if satisfactory arrangements could be made, we feel that the most satisfactory way of disposing of this storage would be the shipping by tank car to Calgary and in this connection will you kindly advise by return mail if your company is in a position to load this crude in tank cars which we will of course arrange for at either Coutts or Sweet Grass - the latter preferable. If so, will you kindly outline your charges for this service plus any other charges you may have?

Any other suggestions or remarks in respect of handling such a transaction would also be appreciated.

Would appreciate very much indeed hearing from you in this matter by return mail and oblige.

Yours truly,

LION OILS LIMITED,

per

E. F. Lowick,
Assistant Manager.

EFL/AC

And on the 10th of October, the Illinois Pipe Line Company replied to the Lion Oils Limited.

"Gentlemen:

We are in receipt of your letter under date of October 7th, relative to the loading of crude oil in tank cars at either Coutts or Sweet Grass.

The only remaining facilities we have for loading tank cars is at our Sunburst loading rack. We removed our line from Sunburst to Sweet Grass during the month of August.

The 10¢ per barrel gathering charge includes service for loading cars at Sunburst.

Yours very truly,

THE ILLINOIS PIPE LINE CO.

WJH/c By W. J. Hagist "

Just those two letters.

MR. PLOTKINS: I would like the letters back. The other is just calculations as to relative costs. Those which show that the trunkline that previously existed, that would make it possible to ship oil from Sunburst to Coutts, has been removed and so far as the Illinois Pipe Line, they are no longer a factor, that is the situation.

THE CHAIRMAN: Well now gentlemen, it has been suggested that Cutbank is to be considered as a competing field and I suppose pipelines are of interest in connection with it, could not either of you or both of you, find out at the same time about this third line which this letter covers, so that there will not be any argument about it, that it

may be afterwards said "well the information was available"

MR. HARVIE: I think Mr. Frawley will be better able to do it. I have no person here.

THE CHAIRMAN: Has Mr. Frawley anyone to get in touch with there, there would be no difficulty then if there was someone there.

MR. FRAWLEY: I have nobody but I do not want to lean too much on the British American but they have an agent at Shelby, Montana, Mr. Johnson.

MR. HARVIE: I will be very glad to get Mr. Johnson's statement but whether that is any better than anybody else's I do not know.

MR. FRAWLEY: I am quite sure that what he states will be the facts.

MR. NOLAN: Could we not send one wire to get an answer to the three questions concerning each of these pipelines?

MR. FRAWLEY: Only if your company owns them or controls them, they would be in a better position to state.

THE CHAIRMAN: It is in the nature of an admission and you would rather have it from your own people perhaps.

MR. NOLAN: The point being whether they are available for use.

THE CHAIRMAN: Yes, it is suggested by Mr. Plotkins that we should eliminate them from consideration in the considering of the Montana field, that they are no longer available as useful pipelines for the conveyance of oil. Now put it in whatever language

one likes.

MR. PLOTKINS: No longer available insofar as shipping this way is concerned?

THE CHAIRMAN: Quite so.

MR. PLOTKINS: And becoming a factor in shipping into Canada?

THE CHAIRMAN: Yes.

MR. HARVIE: I will be very pleased to get whatever I can but the evidence was I think yesterday that the tank car rate was the same as the pipe line so it makes no difference.

THE CHAIRMAN: Find out if either do or do not serve transportation of oil into Alberta, it is a simple thing and amongst the three of you it should be possible for this Commission to get the information. You have reliable people down there, I mean Commission Counsel will send the wire sofar as that is concerned but you have people there from whom you can get this information. It is really being referred to Counsel of these two companies because after all it is associated with the suggestion thrown out that Montana is a very real competition and the pipe line is involved in that. Well it is your estimate that this, that there is some hope of finishing this phase tomorrow, is there?

MR. FRAWLEY: Yes I do, depending upon cross-examination. I think we will finish tomorrow, there is a real hope of it anyway.

THE CHAIRMAN: All right, we will now adjourn.

(The investigation was here adjourned to be resumed at 10:30 a.m. February 15th).

.....

37

The Province of Alberta

IN THE MATTER OF THE PUBLIC INQUIRIES ACT

—and—

IN THE MATTER OF a Commission, dated the 12th day of October, A.D. 1938, to inquire into matters connected with Petroleum and Petroleum Products

Commissioners:

The Honourable MR. JUSTICE McGILLIVRAY
(*Chairman*)

—and—

L. R. LIPSETT, ESQ.

Session:

CALGARY, Alberta FEBRUARY 15th, 1939

VOLUME 37

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MR. FRAWLEY: Mr. Chairman, I would like to file a statement prepared by the Department of the Provincial Secretary of the gallons sold in 1937 during the calendar year and in 1938 during the calendar year. It was prepared especially at my request because ordinarily as you saw from the Exhibit yesterday they run them through from March to March but this is one prepared for the year 1937 and the year 1938, January to December inclusive, and incidentally it shows the names of each company, so it will be interesting and useful.

THE CHAIRMAN: That is of gallons?

MR. FRAWLEY: Well taxable products in this Province, that means everything, all motor fuels, gasoline, heavy or tractor fuels.

THE CHAIRMAN: That is what I wanted to know, it covers everything?

MR. FRAWLEY: Yes.

(STATEMENT PRODUCED HERE MARKED AS EXHIBIT "179").

MR. FRAWLEY: Mr. Chairman, this statement, Exhibit "179" shows that the gallonage sold in 1937 was 65,880,009 4/5 gallons; in 1938, 78,952,230 1/10th gallons, or roughly 79,000,000, so that is not a "horseback figure".

MR. HARVIE: The figure I gave was not a "horseback" figure either.

MR. FRAWLEY: You got it from the same man no doubt?

MR. HARVIE: Just with respect to that, Mr. Chairman, these are issued by the Government every three months

and I was quite surprised when Mr. Frawley did not put them in and that there was any doubt about my figures.

MR. FRAWLEY: It also shows the people who sell this gasoline and of course although I am not offering it for that purpose at the moment, there was some talk yesterday, Mr. Plotkins was asking Mr. Cottle some questions about the percentage of gallonage which is enjoyed by the independents, as against the major companies. Now then the last two columns are of a different nature and I am not putting it in with any desire of calling the Commission's attention particularly to those last two columns, in any event the last column certainly is a matter of hearsay, it is a matter of information which the department picks up and really they are just sort of remarks but it is filed chiefly for the purpose at the moment of showing what the gallonage was in 1937 and in 1938. It also shows how much money the Government made out of it too, the net revenue.

MR. FRAWLEY: Now I would also like to file, Mr. Chairman, a supplement to Exhibit "128", which Exhibit shows the list of Turner Valley wells classified as to the names of purchasers of production under contract.

THE CHAIRMAN: A statement supplementing which Exhibit?

MR. FRAWLEY: Supplementing Exhibit "128" and this is a statement showing the list of Turner Valley wells, it is entitled "List of Turner Valley Oil Wells Classified as to names of Purchasers of Production Under

Contract", the Royalite Oil Company Limited contracts, Anglo 1, Anglo 3, Command 1, Home-Millarville 1, Producers 1, those were the five wells which Mr. Cottle had not been, just a moment, Mr. Nolan is objecting.

MR. NOLAN: The note I have of the wells which Mr. Cottle gave us were the Home-Millarville 1, Extension 1, Anglo-Canadian 1, Anglo-Canadian 3, and Command 1.

MR. FRAWLEY: I will have to call a halt for the moment.

MR. NOLAN: I may be wrong, I made a note at the time, Home-Millarville 1, Extension 1, Anglo-Canadian 1, Anglo-Canadian 3, and Command 1.

THE CHAIRMAN: If you are wrong I am wrong with you because I have the same note.

MR. FRAWLEY: I will just let that exhibit stand for the moment and Mr. Cottle will check it up. Then I have to file this morning---

MAJOR LIPSETT: Are you putting that in?

MR. FRAWLEY: I will file something else just at the moment.

THE CHAIRMAN: Exhibit "180" will be what?

MR. FRAWLEY: Tariffs of the Canadian National Railways, Freight Tariffs Numbered CRC, Number W656 is the first one.

THE CHAIRMAN: Are there a number of them?

MR. FRAWLEY: Two of them.

THE CHAIRMAN: One C. P. R. and one Canadian National?

MR. FRAWLEY: There are two of them and a supplement, they are all Canadian National.

THE CHAIRMAN: Are they related, will we make them letters of Exhibit "180"?

MR. FRAWLEY: We could do that.

THE CHAIRMAN: All right, make the first one Exhibit "180" (a).

MR. FRAWLEY: The first will be CRC Number W656.

(C.N.R. TARIFF NUMBER W656 HERE MARKED AS EXHIBIT "180" (a).

MR. FRAWLEY: And it might be useful to have the date of it, issued the 16th of April, 1930, effective 25th April 1930, and that, Mr. Chairman, covers the first one. "180" (b) is CRC Number W735, issued the 22nd February, 1932, and effective 29th February, 1932.

(C.N.R. TARIFF NUMBER W735 PRODUCED AND MARKED AS EXHIBIT "180" (b).

MR. FRAWLEY: Then "180" (c) will be supplement Number 32 to CRC Number W735 issued the 29th October, 1937, effective 4th November 1937.

(C.N.R. SUPPLEMENT FREIGHT RATE NO. 32 PRODUCED AND MARKED AS EXHIBIT "180" (c).

MR. FRAWLEY: And "180" (d) will be supplement No. 37 to CRC Number W735 issued the 23rd June, 1938, effective the 29th June, 1938.

(C.N.R. SUPPLEMENT NO. 37 PRODUCED AND MARKED AS EXHIBIT "180" (d).

MR. FRAWLEY: Now I want to call the Commission's attention first in Exhibit "180" (a) to page 16, which shows the rate on gasoline from Lakehead to Winnipeg,

what is called Lakehead to Winnipeg and page 30 of the same Exhibit which shows the rate on gasoline from Lake head to Re gina and page 30 of the same, the same page of the same Exhibit showing the rate on gasoline from Regina to the Lakehead.

Then in "180" (c), which is the supplement to "180" (b), "180" (c), that is crude oil from Calgary to Moose Jaw, Regina, Winnipeg and other points.

THE CHAIRMAN: Crude?

MR. FRAWLEY: Yes.

THE CHAIRMAN: Page what, "180" (c), page what?

MR. FRAWLEY: Page---

MAJOR LIPSETT: Are they numbered?

MR. FRAWLEY: No, they are in items and I have to find them. Page 5, sir, and then page, the only other rate I want to call your attention to is Gasoline from Regina and Moose Jaw to Winnipeg and that is given to me, I have certain references there which I, at the moment, cannot find so I might supplement that later without taking time now to do it. Certainly they are all in these exhibits but I want to give you the actual page.

THE CHAIRMAN: We have Lakehead to Winnipeg and we have the Lakehead to Regina and then we have Regina to the Lakehead but we have not Winnipeg to the Lakehead.

MR. FRAWLEY: No, we have not Winnipeg to the Lakehead, that really was not covered by Mr. Cottle's evidence in any event but that can certainly be ascertained.

THE CHAIRMAN: Regina to the Lakehead.

MR. FRAWLEY: We have Regina to the Lakehead, all gasoline, I have given you sir, from Regina to the Lakehead.

THE CHAIRMAN: Is there no refinery at Winnipeg?

MR. FRAWLEY: Oh yes, there are some small refineries at Winnipeg, but we have not got from Winnipeg to the Lakehead. As a matter of fact it might be well to take a few minutes, Mr. McBain has been good enough to send me these pamphlets and we might call Mr. McBain and put him in the box and ask him to give us these and I can keep the Exhibits in the meantime.

(Go to number 4522)

MR. FRAWLEY: I can now file, Sir, the supplement to Exhibit "128".

DOCUMENT IN QUESTION IS NOW MARKED EXHIBIT "181".

MR. FRAWLEY: That shows the wells Mr. Cottle spoke of yesterday, Anglo 1, Anglo 3, Command 1, Home-Millarville 1 and Extension 1, all under contract to the Royalite Oil Company Limited. I will call Mr. Cottle for a moment to file an Exhibit covering the evidence he gave yesterday.

.....

F. G. COTTLE, recalled:-

Q BY MR. FRAWLEY: Mr. Cottle, you are still under oath? Yesterday you gave us an estimate of what the continued through put would be in 1939 notwithstanding the subtraction from the Imperial Oil requirements of 2850 barrels for the Manitoba area, and from the B.A., requirements for the same area of between 200,000 and 300,000 barrels, during the year. Have you now reduced to an exhibit the information bearing upon that estimate?

A I have reduced to an exhibit the information bearing on my estimate of 1700 barrels through put for the line for people other than the British American and the Imperial Oil. Yesterday I was speaking only from memory and I now introduce an exhibit showing the actual quantity of oil purchased by the various refineries in the Prairie Provinces other than the Imperial Oil Limited and British American Oil Company Limited.

Q This was certainly related to the reduced takings of

the Imperial Oil and the British American?

A Yes. The number of barrels I estimated yesterday from the evidence before this Commission.

Q The Imperial Oil Limited and the British American Oil Company Limited based on the evidence, that they would take 15,300 barrels per day through the pipe line. And in addition to that figure.....

THE CHAIRMAN: That is really their own estimate?

A Yes.

Q Now you are going on to show what the others take?

A In addition to that figure I estimated 1700 barrels per day for the other refineries.

Q MR. FRAWLEY: I see, and what you are now filing is a figure which you desire the Commission to add to the 15,300 barrels per day which you say is the Royalite and the British American's own estimate of what their takings will be?

A Yes sir.

Q All right, this is the Exhibit you offer?

A Yes sir.

DOCUMENT IN QUESTION IS NOW MARKED EXHIBIT "182".

Q Will you explain the exhibit?

A Exhibit "182" is a statement of the actual purchases of crude oil by the following refineries in Western Canada. Lion Oils Limited.....

Q In the year 19.....

A In the year 1938. Lion Oils Limited 70,778 barrels. 194 barrels per day. I may explain that these are net purchases. That is to say where one refinery

purchases oil and sells oil to another refinery, the figure shown on this schedule is the net consumption of crude oil by the refinery. The next item is Gold Standard Oils Limited, Wainwright, 12,592 barrels, or 34 barrels per day. Hydro-Pete Oils Limited, Red Deer, 3,474 barrels, 10 barrels per day. Meiklejohn & Agnew, Wainwright, 382 barrels, or 1 barrel per day. Monarch Refineries, Calgary, 1,863 barrels, or 4 barrels per day.

Q Mr.Cottle, it is suggested that it is not necessary to read it. It speaks for itself. What is your total?

A The total is 772,774 barrels, or 2,117 barrels per day. Of that total,however, the net purchases of Gas & Oil Products and Becker Refineries would not go through the pipe line. That is to say they would not go through the trunk line of the pipe line. And I think it is fair to assume it would not go through the Royalite Pipe line at all.. Now, Gas & Oil Products is 180,150 barrels, or 494 barrels per day, and Becker Refineries 83,743 barrels, of 229 barrels per day. Leaving the consumption outside of Turner Valley for refineries listed on this Exhibit of 508.881 barrels, or 1,394 barrels per day. Now the 1700 barrels estimate I made yesterday from memory relates to the figure of 1394 barrels. So that my estimate yesterday would appear to be approximately 300 barrels more than the actual consumption of last year. In that connection, however, it should be borne in mind that the North Star Refinery in Winnipeg did not commence to purchase Turner Valley oil until about the middle of April 1938, and I have divided the total purchases of North Star

last year by 365 days for the whole year, getting an average of 296 barrels per day, which is, I think, somewhat less than the actual consumption of North Star from day to day. The same remarks apply to Central Distributors, Brandon. They did not commence to use Turner Valley crude until April.

Q Is that the refinery.....

A That is the refinery of the Anglo-Canadian Oil Company Limited.

Q With respect to which there was an announcement in this morning's paper?

A Yes.

Q Mr. Cottle, do you relate these other daily averages to the pipe line?

A What other daily averages?

Q On this Exhibit "182"?

A Well I said, Mr. Frawley, that the total - the sub-total of 1394 barrels per day is a figure which relates to the 1700 barrels per day, the estimate I made yesterday. Therefore, my estimate yesterday would appear to be excessive to the extent of 300 barrels per day.

Q It is now 1394 barrels, 1400 barrels?

A Yes.

Q Do you relate that to the pipe line?

A Yes, I would say 1400 barrels per day consumption is all available to the pipe line.

Q But did it go through the pipe line?

A Some of this oil actually did not go through the pipe line last year, because of trucking from the Valley.

Q Yes?

A But with proper arrangements there is no reason why

it should not go through the pipe line, however. I cannot say whether it will or not.

Q MR. NOLAN: Perhaps you could tell us, Mr. Cottle, what of these refineries did not avail themselves of the pipe line in 1938 or do you know?

A I do not think the Gold Standard Refinery used the pipe line.

Q Yes?

A I do not think the Hydro-Pete did. That is 10 barrels per day. The Gold Standard was 34 barrels per day. Nor was Meiklejohn & Agnew, nor was Monarch Refineries. I am not sure offhand about the rest of them. Some of the other small ones may have been shipped by Gas & Oil Products and carried by truck. The Gas & Oil Products used the pipe line partly, but also used their own trucks. I think that was during the time that the pipe line was taxed to its capacity.

Q These other ones on Exhibit "182", the Consumers' Co-Operative and the Eston Refineries and Natural Sodium Products, did they all use the pipe line in 1938?

A I think they did, yes.

Q Do you know whether they did or not?

A I do not know that they used the pipe line for all of the barrelage shown on this Exhibit. I know they did use the pipe line through another party of course, through Gas & Oil Products. But whether trucks were also used or not in respect of each pf them I am not sure.

Q Then as I understand you, Mr. Cottle, this is to show the purchases of Turner Valley crude by these various

refiners?

A Yes sir.

Q Then it has not got very much to do with the pipe line through put for 1938, has it?

A It has this to do with it, Mr. Nolan, this is a definite market for crude oil in the Prairie Provinces.

Q What you are saying is if this total went through the pipe line, there would be that amount to go through the pipe line if they used in 1939 what they used in 1938?

A Yes sir.

Q But suppose they do not use the pipe line, the pipe line does not get it?

A Naturally not.

Q I do not really see how it assists the Commission in arriving at the probable through put for the pipe line for the next year.

THE CHAIRMAN: When was the drop in the pipe line rates last year?

MR. NOLAN: That is shown in Exhibit "42". The 5th of January, 1938, was the reduction from 17 cents to 15 cents per barrel.

THE CHAIRMAN: Then this gives a fairly true picture of the whole of the year 1938?

MR. FRAWLEY: Yes.

MR. NOLAN: You mean this last exhibit?

THE CHAIRMAN: Perhaps I should not say a true picture. What I mean to say is I thought if there was a change in the middle of the year it might have made a great difference. That is those who were hauling by truck might thereafter have used the pipe line, you

see, apparently that is not so.

MR. NOLAN: The point I am trying to make, Sir, is that these are net purchases by people who are independent refiners, the majority of whom at least did not use the pipe line in 1938.

A No, that is not right, Mr. Nolan. The majority of them did use the pipe line.

Q Well now....

THE CHAIRMAN: Is it easily ascertainable, just to clear it up, who did and who did not?

A Yes, it is. I can tell you which ones I know did use the pipe line, Mr. Nolan.

MR. NOLAN: I thought the first three....

A To some extent, but I cannot say definitely that each and every barrel shown on this Exhibit for each and every one of these refiners did so , because there might have been the odd truck load taken out.

MR. FRAWLEY: Might it not be better if Mr. Cottle retired from the stand and informed himself as completely as he can as to the situation?

Q MR. NOLAN: Before I forget it, when you are taking the figures for the Imperial Oil, you are taking their estimate of what they will require in the year 1939 are you not?

A That is right.

Q Which was 13,766 barrels per day?

A As shown on Chart No. 3.

Q And that estimate takes into consideration what, in your opinion, will be the natural increase in the consumption for the coming year?

A I presume it does. I have not examined the basis for

the estimate.

Q Do you know that it is above the figure for 1938?

A

A I think it is above.

Q If they are going to estimate for 1939 they take into consideration that sort of thing, don't they?

A I presume they did. They take all the factors into consideration of which they have knowledge, one of which I assume to be the natural increase which they anticipate.

Q Is the North Star Oil Company Limited included in their estimate for 1939?

A Sales of gasoline to North Star would be included in their estimate, but not of crude.

Q Not purchases of crude?

A For the refinery.

Q As shown on this statement here?

A No.

Q I mean we are not overlapping?

A No sir.

MR. FRAWLEY: Then if you will do that, Mr. Cottle, and come back perhaps this afternoon.

MR. COTTLE: Yes.

MR. FRAWLEY: Mr. Harvie has some statements to file which, I presume, might as well be filed before we go on with Mr. Burns.

THE CHAIRMAN: All right, Mr. Harvie.

MR. HARVIE: The first statement, Mr. Chairman, is in connection with the information you asked me to supply the Commission in connection with the Toronto Pipe Line, as to whether it is now in position to transport crude from Cutbank to the border, Coutts. I was in touch with the representative of the

Company in Montana last night by telephone and received this information. As far as the gathering system is concerned, which Mr. Plotkins has suggested had been either sold or dismantled, the situation is that the Company now operates and maintains a complete and extensive gathering system in the Cutbank field, and which it is now operating. Over the last year there have been some changes. Some branch lines have been sold or dismantled where they are not being used. But in addition there were new ones bought and built , including a recently completed five miles branch.

THE CHAIRMAN: That is the Toronto Pipe Line?

MR. HARVIE: The Toronto Pipe Line. So it now has in the field a rather complete gathering system.

THE CHAIRMAN: What about the trunk line.

MR.HARVIE: As to the trunk line. The trunk line connecting with the gathering system to Coutts is intact and complete, and the Company is in a position to gather and transport crude from Cutbank to Coutts at a moment's notice. To be fair to Mr. Plotkins, I think the information he gave was accurate to the extent of his information. I may explain this. He did mention that part of that line was being used in the reverse way and a rate had been posted by the proper authorities in Montana in that connection. The information I have on that is this, that the Company is now taking from a Santa Rita well - that is, Mr. Plotkins tells me five or six miles away from the

Cutbank field,

MR. PLOTKINS: It is 12 miles South and West, almost due West of Coutts.

MR.HARVIE: On the route of the pipe line?

MR. PLOTKINS: On the route of the pipe line.

MR. HARVIE: How far would that be from the present Cutbank field?

MR. PLOTKINS: That would be some 25 miles from that well to Cutbank.

MR.HARVIE: They have made arrangements to take crude from that well, that was mentioned, which apparently would have the effect of reversing the pipe line. But my instructions are that arrangements are, or have been made that this does not alter the situation, and that the Company can handle that crude in such a way as not to interfere with the shipments to Coutts. Just the mechanics I have not got the details of. I think that is all on that point.

MR. FRAWLEY: Mr.Plotkins made the statement and I am wondering whether Mr. Plotkins accepts that as being in accordance with what he understands is the operating fact down there. That is all?

MR. PLOTKINS: If you will permit me I will refer to the information I have and then I will verify it.

THE CHAIRMAN: Take your time. While Mr. Plotkins is looking into that what have you to say about the other two lines?

MR. NOLAN: That was my task and as soon as I left here last night I telegraphed. I have not a reply yet but I am expecting one at any moment. When we leave these offices are closed in the East and it causes a little delay next day. But we will have that information.

MR. FRAWLEY: That is with respect to the Transit & Storage and the Montana Pipe Line?

MR. NOLAN: Yes. I do not think there are two, but that will be cleared up and I will make a statement on that.

MR. FRAWLEY: Then there is the Illinois Pipe Line Company.

MR. NOLAN: I have learned something about the pipe line situation if I can explain it, because we have never seemed to know much about it here. I understand the Toronto Pipe Line serves the Cutbank field with a gathering system and trunk line running to Sweet Grass.

MR. FRAWLEY: I wonder if I could make the suggestion of putting Mr. Plotkins back on the stand. He, perhaps, has a more intimate knowledge, and then you can put these questions to him. It seems to me if Mr. Plotkins agreed with the suggestions that would help to clear it up, because he knows. Otherwise we are in a position of having Mr. Plotkins make counter-statements. I am thinking of the record more than anything else.

THE CHAIRMAN: Excepting, perhaps, all the parties should get in accord with the facts. I

can see no purpose in Mr. Plotkins giving evidence until he really knows what the situation is. He is really inquiring as everybody else is.

MR. NOLAN: Will you excuse us just one moment?

THE CHAIRMAN: Yes, certainly. Mr. Harvie, did you get to understand yourself? I do not yet, supposing oil is taken from this well you speak of, which, so far as the trunk line is concerned must go in reverse, surely they cannot run both operations at the one time?

MR. HARVIE: No, but the situation is this, there is only one well with comparatively small production, and the line is more or less idle now, but they are using it to accommodate that well.

THE CHAIRMAN: They might close up that?

MR. HARVIE: No, I think what they would do is to take that crude into Coutts too and exchange at the other end of the field.

MR. PLOTKINS: Here is the information if you will permit me to read it, as shown or printed in the Montana Oil Journal, Great Falls, Montana, Saturday, January 14th, 1939.

" "PIPE LINE RATE IN DARLING POOL IS 12 CENTS.

A common carrier rate of 12 cents per barrel for transporting oil from the Darling pool of North Cut Bank to that town of Cut Bank will be filed with the public utilities commission at Helena, according to J. W. Johnson, manager of Toronto Pipe Line Company in Montana.

A 5½ mile feeder line was constructed to serve

"the Yukon-Lungren flowing well and the Yukon-Jacobson discovery well, connecting on to the main line which runs from the Seeba farm in Cut Bank field to Coutts-Sweetgrass on the International border. The Toronto is said to have contemplated scrapping the line, following discontinuance of shipment of Montana oil to Canada.

Development of the Darling pool means salvaging the Toronto Pipe Line investment by running oil southward instead of northward. The Jacobson discovery well has been in production since 1933 and about $20,000 worth of production was hauled to the Northwest Refining Co. plant at Cut Bank by trucks from intermittent production of the well.

The pipe line is now handling about 75 barrels per day, all of which goes to the Northwest, but this volume will increase under the scheduled drilling program which includes wells to be drilled by K. D. Pardee, A. B. Cobb and others."

THE CHAIRMAN: That is, perhaps, not inconsistent with what Mr. Harvie says.

MR.HARVIE: I presume the Darling pool is the well we are talking about.

MR. PLOTKINS: Yes, that is right.

MR. FRAWLEY: That seems to fix the Toronto Pipe Line.

THE CHAIRMAN: Yes, all right.

MR. FRAWLEY: We will have to wait till

Mr. Nolan hears about the other two, and that still leaves the Illinois Pipe Line.

THE CHAIRMAN: Mr. Nolan is checking on that?

MR. FRAWLEY: Not the Illinois. I thought Mr. Harvie, it would be an easy matter for him using his good offices to get in touch with Mr. Johnson and he could also make a definite statement about the Illinois Pipe Line.

MR. HARVIE: I asked him on that and he stated that he would prefer not to be asked to give that information unless he had plenty of opportunity to take it up with the proper officials, which he was not able to do last night, and would not be available to do this morning.

MR. FRAWLEY: I will telephone the gentleman at Shelby who gives Mr. Plotkins' Company the information, and if he will give me a statement I will put it on the record. That is the Illinois Pipe Line Company and is a Company with head offices in Ohio.

MR. HARVIE: Mr. Johnson stated he thought he knew the information on that line but he would not want to go on record without checking it, seeing it was a competing line.

MR. FRAWLEY: Then the International Pipeline Company which I said sometime ago I would file something about, that is the Texas Company's subsidiary, and I have received from Mr. J. E. McLeod, K.C., the Texas Company's solicitor at Calgary, a statement, - just one copy of it, the first statement showing the International Pipeline I.C.C. tariff, Interstate Commerce Commission's tariff in effect during 1936, the other one shows the International Pipeline Company, intra State, local tariff in effect during 1936.

THE CHAIRMAN: Where is this pipeline?

MR. FRAWLEY: It runs from, I have a pipeline map I think, Mr. Chairman, on Montana, which I will be glad to file.

THE CHAIRMAN: Mr. Plotkins has seen the map, has he?,

MR. FRAWLEY: Yes he has, Mr. Chairman. I will offer this map then, Mr. Chairman, it shows the pipelines in the Northern part of the State of Montana.

MR. PLOTKINS: It shows the trunklines.

MR. FRAWLEY: Trunklines, yes, and some of the gathering lines in the Kevin-Sunburst field.

(MAP OF MONTANA PRODUCED HERE MARKED AS EXHIBIT "183")

MR FRAWLEY: Mr. Nolan has suggested that I might read into the record a memorandum which was prepared under my direction in 1935 for the Sittings of the Tariff Board in Calgary, held on the 27th of May, 1935, it certainly is an accurate statement of

the situation as it was then and it might serve a good purpose to read it in now. It is only a short statement on each company.

THE CHAIRMAN: Allright, we will have that but I was just wondering, it should not be difficult to know whether these pipelines are pulled up.

MR. FRAWLEY: No, if we had this man Johnson that Mr. Harvie was talking about and could question him a little about this it would help, particularly about this recent newspaper statement.

MR. HARVIE: I questioned him on that and they have sold and they have purchased and they now have a complete.....

THE CHAIRMAN: He does not deny what Mr. Plotkins says, he says they bought some or constructed more and they have a complete gathering system now.

MR. FRAWLEY: In any event, Mr. Harvie's company makes the statement now, that I presume we will have to accept, that they are able on short notice, and are prepared to make delivery to Coutts. Have you any information that will gainsay that?

MR. PLOTKINS: I have information which would lead me to believe that it would not be quite that simple, that they have made definite contract committments.

THE CHAIRMAN: Well, Gentlemen....

MR. FRAWLEY: As you can see, I am certainly in a difficulty.

THE CHAIRMAN: You will have to consider how important it is and if it is necessary to prove something properly we will have to do it.

MR. FRAWLEY: I should make myself clear

that certainly I would not have gone about it in this fashion if it was one of the things that I felt I had to prove. There would have been some person here from the State of Montana, perhaps two or three men who would have told us all about it, but frankly, it only arose because of the evidence from the major companies, that there would be American crude in 1939, coming into Canada, some of it from Montana. Now, we have two statements with respect to that, one of the British American that they do not see in their best judgment any crude coming in from Montana, that is the British American.

Then we had Mr. Le Suenr's statement yesterday in his telegram saying that the policy of his company with respect to importing Montana crude for the Regina area has not yet been decided upon. That is a negative position and that is just my justification for being quite unprepared for what some people might think is an important matter. If it is important to this Commission there is a very easy way of proving it, send somebody down to Montana who will come back with the facts.

MR. NOLAN: The whole difficulty arose because Mr. Plotkins was endeavouring to leave the impression with the Commission that there were no pipeline facilities from the Montana field into Alberta.

THE CHAIRMAN: I think at the moment, Mr. Plotkins, we would be bound to accept the formal statement by anyone made to the British American, that they could put a trunkline into Coutts, unless something is brought to our attention which would lead to an opposite conclusion, I mean the same as we would accept a statement from you as to something

your refinery could do to-morrow unless we had something to show it is not so, and I think we will let it rest at that, subject to Mr. Nolan getting this information.

MR. FRAWLEY: Yes, but Mr. Nolan thinks there are some useful statements in this short memorandum, which I might put on the record.

THE CHAIRMAN: Yes, I forgot that.

MR. FRAWLEY: It is an extract from a memorandum prepared on Montana crude, Montana pipeline and Montana refineries, submitted by the Province of Alberta before the Tariff Board, sitting at Calgary on the 27th of May, 1935. I will only read the part entitled "Montana Pipe Line Situation".

"MONTANA PIPE LINE SITUATION

In Dr. Allan's submissions to the Board a map of the State of Montana has been submitted showing the location of the pipe lines, which carry crude from the Montana fields to the Alberta boundary. A note of each of the four principal companies will probably suffice here.

Toronto Pipe Line Company.

In addition to its direct relations with the British American Oil Company, the Toronto Pipe Line Company operates as a common carrier in the Cut Bank field. It gathers crude for the Montana Pipe Line Company and for the International Refining Company, Sunburst, which is delivered in the field to the International Pipe Line Company and then taken over the latter company's line to its refinery at Sunburst. What is gathered for the Montana Pipe Line Company is then piped to Coutts through the lines of the Montana Pipe Line Company.

Montana Pipe Line Company.

This is an American corporation with head office at Denver, but is now wholly owned and controlled by the Imperial company through the latter's control of Maple Leaf Petroleum, Limited. The pipe line company was formed in 1927 by some of the individuals who controlled the Maple Leaf Refinery at Coutts. The company owns about ten miles of gathering lines in the Kevin-Sunburst field as well as fifteen miles of four-inch trunk line running from Sunburst to Coutts. Its operations are confined entirely to supplying crude for the Maple Leaf Refinery at Coutts.

International Pipe Line Company

The International Pipe Line Company is a Montana corporation and a wholly-owned subsidiary of the Texas Company. It was built in 1933 and maintains fifteen miles of gathering lines in the field as well as a trunk line from Cut Bank to Sunburst, a distance of twenty-five miles. It delivers to the International Refinery at Sunburst and carries for the Montana Pipe Line Company from Coutts to Sunburst.

Illinois Pipe Line Company

This is a Delaware corporation wholly owned by the Ohio Oil Company, one of the Standard group. Its lines were built in 1924 to maintain a gathering system in the Kevin field and to operate a trunk line from Sunburst to Coutts. Its operations are now largely confined to supplying

production for the Imperial refinery at Calgary. The production moves from Sunburst to Coutts by the Illinois Pipe Line and from Coutts to Calgary by rail."

And I have a note here "Table of Pipe Line Rates".

"Gathering charge in Cut Bank field, 10¢ per barrel of 35 Imperial gallons.

Cut Bank to Coutts via Toronto Pipe Line, 22.5¢ per barrel.

Kevin Field to Coutts via Montana Pipe Line Company, 17.5¢.

From producers' tank Cut Bank via International Pipe Line Company to Sunburst 20¢; via International Pipe Line to Sunburst and via Montana Pipe Line to Coutts, 24¢."

Those rates, of course, are of no particular value, because we have the Tariff filed.

Now, to complete what I intend to do with regard to these pipelines, I have to file the Texas Company's statement which was rather late in getting to me, I only received them a day or so ago, they came in a letter from their Calgary solicitor, Mr. J. E. A. Macleod, K. C.

MR. NOLAN: That is the International?

MR. FRAWLEY: This is the International, wholly owned by the Texas Company.

THE CHAIRMAN: Yes.

MR. FRAWLEY: And Mr. Macleod's letter, which, perhaps, I might read is explanatory.

" We have now received, and forward herewith, the published tariffs of the International Pipe Line Company for the year 1936".

Now, frankly, when this came in I was engaged in something else, I could not have done anything about it anyway, I waited two weeks to get this, a man in New York had to say whether they would release it at all but now it appears to be for the year 1936. I will put it in anyway, but I do not know as it will be of much value. I will first read Mr. Macleod's letter.

" We have now received, and forward herewith, the published tariffs of the International Pipe Line Company for the year 1936, showing also the barrels of crude oil transported under each tariff.

In addition, we are informed by Mr. George W. Ray, Jr." I may say he is the general counsel for the Texas Company in New York.

"that the mileage of the lines were as at 31st December, 1936, as follows:-

Gathering lines	65.54 miles,
Trunk Lines	31.12 "
TOTAL	96.66 "

In giving you this information, we are instructed to state that it is not to be construed in any way as a submission to the jurisdiction of the Commission to demand the same, and is not to be taken as a precedent concerning further information which the Texas Corporation or any subsidiary or associated company may be asked to furnish respecting operations outside the Province of Alberta."

"Outside the Province of Alberta" he says. Now, I will offer these.

THE CHAIRMAN: I think we should take the letter with these two attached a s one Exhibit because the covering letter is as much a part of the communication...

MR. FRAWLEY: Yes, frankly, of course, I am disappointed because I particularly asked for 1938, and I got 1936.

THE CHAIRMAN: We will only give it what value it is entitled to, that will be Exhibit "184".

(LETTER FROM MR. MACLEOD TO MR. FRAWLEY WITH DOCUMENTS ATTACHED HERE MARKED AS EXHIBIT "184".)

MR. FRAWLEY: A letter from Mr. Macleod, dated the 13th of February, 1939 to myself. I should complete this, Mr. Chairman.....

THE CHAIRMAN: Is the International Pipe Line Company carrying any oil?

MR. FRAWLEY: Oh, it certainly is supplying its own Sunburst refinery, oh, yes.

THE CHAIRMAN: I was just wondering why you got the year 1936, this being 1939.

MR. NOLAN: I can bring it a little more up to date by looking at Exhibit "430" at page 49, where the tariff of the Pipe Line Company is set out as being a tariff, I. C. C: No. 8, effective July 1st, 1937, 16.5¢ per barrel, but that is not up to date either.

MR. FRAWLEY: No. This would be, perhaps, a good time for me to introduce, not for the purpose of confusing but to complete the record, on the 3rd of February I sent this telegram to the Assistant Counsel of the Board of Railroad Commissioners at Helena, Montana, to Mr. Walter J. Nilan.

"I am anxious to know if certain Montana Pipe Line rates and tariffs have been the subject of investigation and approval by your Board stop Please refer to following Pipe Line tariffs filed with Inter State Commerce Commission and appearing in National Petroleum Association's Digest of Pipe Line rates at following pages stop Page forty two item one hundred nine Illinois Pipe Line Company fifteen cents stop Page forty nine International Pipe Line Company sixteen and half cents stop Page fifty seven Montana Pipe Line Company fifteen cents stop Page one hundred nineteen Toronto Pipe Line Company fifteen cents Page one hundred twenty Transit and Storage Company stop"

and I might say there was no rate there because there was none in the tariff.

"Would appreciate wire acknowledging receipt and advising how soon I might expect this information from you by wire collect stop Address me Court House Calgary Alberta."

And then I might say I got this wire, after some telephone conversations, I got an answer and I have this answer.

"Re your telegram February third 1939 Our tariffs show Illinois Pipe Line Company ten cents International Pipe Line Company ten cents Toronto Pipe Line Company ten cents. Board Railroad Commissioners John W. Bonner Secretary Counsel".

And that is dated at Helena, Montana, on the 7th of February, so I would offer those two.

THE CHAIRMAN: Ten cents, is it?

MR. FRAWLEY: Illinois Pipe Line Company ten cents, International Pipe Line Company ten cents, Toronto Pipe Line Company ten cents.

THE CHAIRMAN: Is there any information that those are passed upon at all?

MR. FRAWLEY: No, he does not say that, although in his telephone conversation to me he gave me the impression that they were not and he said he would write me to that effect. It is too bad we have no more co-operation.

MR. PLOTKINS: I think I can clarify that point, they do not exactly have to pass on any new submissions of prices, they file them and if there is no objection.

THE CHAIRMAN: I understand that perfectly, but what I want to know was, had there been any objection and had they actually done it?

MR. FRAWLEY: No, he simply replies to my wire presumably because, yes, he is purporting to reply to my wire and he tells me, when I call his attention to the Illinois Pipe Line rate of 15 cents, in Exhibit "130", he replies, "Our tariffs show Illinois Pipe Line Company ten cents."

MR. NOLAN: Now, for what, that is the point?

MR. FRAWLEY: Well, I quite agree, I am not offering it as complete information, I appreciate it is lacking in information, I appreciate that as well as anyone.

MR. NOLAN: You see, there is a situation down there which may be quite different from our Turner Valley situation in respect of gathering lines and the charge for that is posted, and the trunkline carriage.

THE CHAIRMAN: I would think, Mr. Frawley, it might be well to clear it up. He surely would reply to another wire.

MR. FRAWLEY: Yes.

THE CHAIRMAN: You have him started now.

MR. FRAWLEY: I may have to 'phone him again.

MR. NOLAN: Now, Mr. Gaby, on the 25th of January, 1939.....

MR. FRAWLEY: I will offer a copy of my wire.

THE CHAIRMAN: They must be taken together to mean anything, and you might attach them together.

(TWO WIRES ATTACHED PRODUCED AND MARKED AS EXHIBIT "185".)

MR. NOLAN: Now, I have two observations I would like to make about this Exhibit "185". In the first place in the reply from Mr. Bonner he says nothing at all about the Montana Pipe Line and in the second place Mr. Gaby in Exhibit "131", dated the 25th of January, says that the pipeline rate for the Toronto Pipe Line is fifteen cents.

MR. HARVIE: Which is the same as the information given in Exhibit "130".

MR. FRAWLEY: I knew what the effect would be if I filed these wires, I said I did not want to wholly confuse you but I knew they would be confusing. I will telephone the man at noon and we will see what we can do.

MR. NOLAN: If he wrote us a letter, he could give us the distance too of the gathering lines and these trunklines, because we would like to know.

MR. FRAWLEY: He will do just what the spirit moves him to do although I must say he was a very polite man, of course.

MR. PLOTKINS: Would it not be simpler to write each company and ask them to give us a copy of their tariff and that would answer?

MR. FRAWLEY: Simpler, well, I do not know about that.

THE CHAIRMAN: I do not think we will delay the Inquiry to get these tariffs, because, after all,

we must make up our own minds as to what we will do here, under the circumstances at this field. All right, Mr. Frawley, do the best you can about that, and we will get on with the Inquiry.

MR. FRAWLEY: Yes, I will call Mr. Burns.

MR. HARVIE: There is still one point I would like to mention, there is a little contradiction, apparent contradiction of evidence between Exhibit "131, which is Mr. Gaby's wire to me reporting on the pipeline, the Toronto Pipe Line situation, in which he states.....

THE CHAIRMAN: Mr. Gaby's wire, Exhibit what?

MR. HARVIE: Exhibit "131", in which he states that the Toronto Pipe Line Company transports for parent company only. Mr. Woolley in his evidence said he thought they also transported for others, and I was requested by the Commission just to straighten that out, and I now have a wire from Mr. Bronsdon under date of February 14th, addressed to me, a night letter. I will read it:

"Mr. Gaby's wire January 24th",

it was really the 25th,

"Re movement of crude through Pipe Line Montana for years Nineteen Thirty six and Nineteen Thirty seven incorrect in stating transport for parent company only stop Total quantities transported his wire include deliveries for Huff Refining Company Lethbridge Nineteen Thirty six one thousand and two barrels and Nineteen Thirty seven Thirty thousand seven hundred and seventy one barrels otherwise information given according to facts".

(TELEGRAM FROM MR. BRONSDON TO MR. HARVIE PRODUCED AND HERE MARKED AS EXHIBIT "186".)

THE CHAIRMAN: What does that mean, in 1936 and 1937 they imported for the Huff Refining Company?

MR. FRAWLEY: He says they imported for the Huff Refining Company, Lethbridge, in 1936, one thousand and two barrels, and in 1937, thirty thousand seven hundred and seventy-one. barrels.

THE CHAIRMAN: So that outside of that we may assume the transportation was for the parent company?

MR. HARVIE: Yes, entirely in the latter year.

MR. FRAWLEY: Even although that appears to be in conflict with what I read in this morning.

(Page 4549 follows.)

T. E. BURNS, recalled:-

Q BY MR. FRAWLEY: Mr. Burns, there were a number of matters that you were going to file. First of all I think we asked you about the Manual that was mentioned the other day in your evidence?

A Yes.

Q And you now file....

A Accounting Manual for the Preparation of Balance Sheets and Income Statements.

Q Accounting Manual for the Preparation of Balance Sheets and Income Statements. Standard Oil Company New Jersey and affiliated Companies?

A Yes.

Q In two volumes.

A There are certain other comments there and this contains a list of the revisions of covering letters which came with.....

Q First you are filing the original. Could it be called the original, and these are supplements?

A No, not entirely. It is all information.

Q It is in two volumes then?

A Yes.

Q In two volumes. The witness is filing the Accounting Manual, Standard Oil Company of New Jersey and affiliated Companies, for the preparation of Balance Sheets and Income Statements.

TWO VOLUMES ARE NOW MARKED
EXHIBIT "187", Volume 1
and Volume 2.

MR. FRAWLEY: I would like Mr. Morrison to have a look at these, Mr. Burns. Will you tell me now if that Manual contains any directions to you with respect to the allocation of Indirect Costs?

A Any directions?

Q Yes, anything in here at all dealing with the matter of allocating Indirect Costs?

A No. I think if I could turn up.....

Q Yes, surely?

A Some of these I could read what it says. It says here. "Administrative and General Expenses, where practicable, should be charged direct to the Department in which they have been incurred." Now I may say for the purposes of this accounting we considered the Royalite Oil Company to be in the Crude Oil Department. We used the accounting applicable to the Crude Oil Department.

Q THE CHAIRMAN: Department of what?

A Well it is the Department...

Q Of the Standard Oil?

A The Standard Oil, yes, that is correct. This is the accounting applicable to that department.

MR. FRAWLEY:

Q This is the Standard Oil Company's books prepared in New York and sent out from New York?

A Yes.

Q And you say that is on page - we want to be sure now of this reference, it is on page....

A That is the account number. There is no page.

Q So the Commission can find it. The witness is referring, Mr. Chairman, to that part of Volume 1 of Exhibit "187" which follows the tab "Income Accounts" and is item Number 40, following that tab "Income Accounts." That is the best reference I can give you to that.

THE CHAIRMAN: 40?

MR. FRAWLEY: Item Number 40, and Page 3 of Item Number 40, and he is referring to the paragraph "Administrative and General Expenses, where practicable, should be charged direct to the Department in which they have been incurred. In case the Accounting Company is so organized as to have separate administrative departments, the expenses of those departments should be distributed, under the classification of Administrative and General Exoenses, to Producing, Manufacturing, Marketing and other similar Departments, upon bases which are found to be equitable. In order to permit the proper reporting on Income statements, of amounts of depreciation, amortization, and taxes of the Administrative departments which are included in the total expenses of those departments, which are apportioned to Operating Departments, it is suggested that, in the "Elimination" column of the consolidation working papers - in which like accounts of all departments are combined - the amount of depreciation, amortization and taxes of the Administrative Departments be deducted from the combined amount of "Administrative and General Expenses" and added, respectively, to the combined amounts of depreciation, amortization and taxes, as provided for in the Income statement."

First of all, is that the reference that you gave me when I asked you if anything is said in there about the manner in which the Indirect Expenses should be allocated?

A That is correct. That is the application we make of it.

Q First of all, is that the only place in the Manual where

we can find anything bearing upon this question?

A No, I would not say that. I think in that Manual you will have specific pipe line accounts, that is for use by Pipe Line Companies. But we do not use that. I will call your attention to this in Volume 2 of Exhibit "187", which says.....

Q You are directing me to a certain portion of Volume 2 of Exhibit "187". Now for the purposes of finding it again, I think it may be advisable if we put a marker in it, and perhaps make it a little more complete later on. That is entitled "Index to Balance Sheet Sub-Accounts. Pipe Line Department.".

THE CHAIRMAN: The pages are not numbered.

MR. FRAWLEY: The pages are numbered. No, they could hardly be said to be numbered Mr. Chairman.

THE CHAIRMAN: What is your tab?

MR. FRAWLEY: There is no tab in this volume.

THE CHAIRMAN: How will we get at it, because that blotter may come out.

MR. FRAWLEY: I suggest we put in some sort of a tab. Mr. Burns may be able to put in some sort of a permanent marker. We will do something which will assist the Commission in finding this. Then the heading changes to "Index to Charts of Balance Sheet and Income Accounts, Pipe Line Company." There is a distinction in this book between Pipe Line Departments and Pipe Line Companies.

A I may say this is merely to provide the Standard Oil

Company of New Jersey with a system of maintaining its accounts on a uniform basis. That is to say, it has long ago recognized that there are real differences which might exist in the minds of several accounting officers or officers of the accounting companies which may be submitting statements to it.

Q Yes?

A And in order that we may all use the same titles of these accounts and in order that the Standard Oil Company of New Jersey may prepare a consolidated Balance Sheet, as I understand it is required to do by law, and in order that it may report to the Securities and Exchange Commission, it is essential we have a certain uniformity in the accounting, and that is all that this purports to do insofar as the Balance Sheets and Income Statements are concerned.

THE CHAIRMAN: The Securities and Exchange Commission, what body is that?

A The Securities and Exchange Commission is headed by Mr. William O. Douglas. It is in New York, and I believe it is a United States Federal body.

Q Mr. FRAILEY: It has only been in existence a comparatively few number of years, is that not so?

A I think it came into existence following, soon following the present administration in the United States.

Q That was in 1932. It certainly did not come in much before 1933, or 1934. These Manuals of the Standard Oil Company of New Jersey have been out longer than that haven't they?

A No, I think here is the first one. This Bulletin Number 1

advised us of the change, and that was dated October 30th, 1933.

Q It is your opinion, then, that these Manuals were issued after the Securities and Exchange Commission demanded that the Standard Oil Company file its consolidated Balance Sheet?

A Well I believe they had it in mind when they were drawn, but I cannot say.

Q You have been with the Company a good many years?

A Yes.

Q Have you only had these Manuals for the last four or five years?

A Yes. They came into being in the Fall of 1933. We began to use them with respect to the 1933 accounts, but we only made them up as specimens. They were not used, I do not believe, in the consolidated Standard Oil Company's Balance Sheet. They sent them out to us in 1933 to see what we could do with them in that year. They first were used in the year 1934.

Q Whether it contains some method of allocating Indirect Costs or not, did your Company use them to allocate Indirect Costs between the various departments of the Royalite Oil Company?

A We did not.

Q Perhaps you could tell me why you did not?

A Well, they are only intended to be very general. Everywhere throughout the book I think it will say they are only suggestions and we may use our own ideas.

Q Was there something you wanted to say?

A I believe it is stated right in here that they are recommended for use, but throughout the whole thing it is

suggested that they be used - well it says here "Possible Legal Aspects of Accounting Procedure outlined in this Manual is subject to correction should it be found to conflict with the laws under which any Company within the Organization of the Standard Oil Company of New Jersey is incorporated, as well as other applicable laws."

Q Didn't you even use them in preparing what we have been calling the Jersey Statements, Exhibit.....

A Oh yes. In this book there are quite a few statements, some of which are no longer in use now, but they will give an idea of what it is intended to convey. If they are no longer in use there are other similar statements.

Q You did use them in the compilation of the Annual Jersey Statements?

A That is with regard to the Balance Sheet and Income Statement do you mean? Perhaps I could clear it up if you mean did we use it in regard to splitting the Indirect Costs, I may say we did not.

Q Now we have got our copy of Exhibit "87a", which is the Jersey Statement for the year 1937?

A Yes.

Q Was that statement, and were similar statements prepared yearly, were they prepared on the directions contained in the Manual Exhibit "187"?

A This classified Trial Balance was prepared.

Q You are speaking now of part of Exhibit "87"?

A Part of Exhibit "87", the classified Trial Balance. And this Statement of Inventories also part of Exhibit "87". "87b".

Q That was also prepared?

A Yes. This "87c" and "87d" were not prepared in accordance with any instructions contained in these Manuals.

Q It is "87c" and "d" of course, in fact, they are, as I recall, the only parts of these Jersey Statements that we have directed any attention to as you will recall?

A That is correct.

Q And they were not prepared, you say, under the directions of the Jersey Company as contained in their Manual?

A That is correct. I believe I said previously, too, Mr. Frawley, that we were not required to submit those any longer. They apparently found them of no use.

Q MR. COMMISSIONER LIPSETT: In making out Exhibit "87" "c" and "d", you took the responsibility for departing from the Manual instructions?

A No. With regard to the splitting of Indirect Expense I can recall in reading the Manual it says on several occasions that wherever it is necessary to split the expenses this should be done in the most practicable way possible. But it does not say what that is. And any that cannot be practicably split should be estimated to be split and it leaves it entirely up to us, wherever that is necessary. But we have not really had occasion to do that, because for the purposes of submitting the Balance Sheet and Income Statements of the Royalite Oil Company we use the accounts applicable to the Crude Oil Department of the Standard Oil Company of New Jersey. It was only for the purposes of evaluating

the inventories, small inventories which we had on hand that these statements were prepared.

Q Would it not fairly be a subject of this Inquiry from you that if you adopted this method in "87" (c) and (d) instead of the method in the Manual, that there must have been other reasons which at that time seemed sound?

A Well, I think I said previously, Sir, that the Inventories which the Royalite Oil Company had of crude oil were negligible, and it was never necessary for us to give any serious consideration to valuing them. We were required under the Companies Act to set them up at cost or market, whichever is lower, and we conservatively used that form of costing, setting them up at that, what it cost. But I believe I also said previously that if the inventories were greater that I would have to give consideration to another method of evaluating them or possibly seek other accounting advice. That is to say, in that, I mean that should the gas business which the Royalite enjoys at the present time remain the same, but the crude oil business should be very much larger, it is reasonable to assume that the inventories would be larger, and under the method which we have used there of apportioning them, if the crude oil business was the very much larger portion of the Royalite's business, the gas business might not take what would be an equitable proportion of the Indirect Expenses. I would not say what percent it might be, I am just explaining this to illustrate that these statements are of little value if conditions were

changed.

Q MR. FRAWLEY: Now, Mr Burns, I would like to ask you about the G. Harrison Smith statement.

MR. NOLAN: Before you go on to that question. I suppose these are not going to be copied into the record of the case.

THE CHAIRMAN: Yes, that is so.

MR. NOLAN: I would ask that they be kept in the custody of the Court Reporter because after all they are the accounting advice made possible for the use of their own people, and it is not something that anybody else should be interested in.

THE CHAIRMAN: Quite so.

MR. FRAWLEY: It is not anything that anybody but a Chartered Accountant could understand anyway, from looking at them.

Q You have those Harrison Smith statements you were speaking of?

A Yes.

Q We were going to file some of these.

A As many as you wish.

Q Just to do them justice that is all?

A I may say that Mr. Morrison has been over them. They were supplied to him on Saturday and he has been over them.

Q Are they all contained in the binder?

A No, only the ones he asked me to supply.

Q Then we will put the whole binder in the give it one number.

BINDER CONTAINING THE G. HARRISON SMITH STATEMENTS IS NOW MARKED EXHIBIT "188".

Q Now over what period, Mr.Burns, were these statements prepared and forwarded to Toronto?

A Oh I could not say. This was in that form, I believe, beginning at 31st December, 1934.

Q Yes, is that when you began to prepare these statements?

A I cannot say that.

Q Do you recall whether you made them from the very inception of the Company in 1921?

A Not on that same form, no. No we did not.

Q Are they all entitled "Producing Departments Statistical Report" or is that just a form that was used?

A That is just a blank form that was used. The information was typed in.

Q Prior to 1938 were they made up from the books?

A Not entirely. Made up from the books? All of the information that is contained in there was obtained in some fashion from the books, yes.

Q But they stand apart from the books in that the information from the books was interpreted and then put into these statements. Is that a fair thing to say about it?

A That is correct. Particularly with respect to Indirect Expenses.

Q Yes, I mean no more than that, that there had to be certain calculations made after the figures were drawn from the books themselves before these statements could be prepared?

A That is correct.

Q Well now, let me first ask you if there are any other statements of any kind showing any different results in cents per barrel, other than the Jersey Statements?

T.E.Burns.

Have we now got all of the statements reducing the cost of operating the various departments of this Company in cents per barrel? Have we now got them all, the Jersey Statements and this new Exhibit "188"?

A I do not recall any others. And in the same way that I have spoken of the Jersey Statements I consider these to be worthless for the purposes of this Commission.

Q Just so we know we have them all or not. These are the statements that went to the Chairman of the Board?

A That is correct.

Q And then we have the Jersey Statements which went to the Imperial Oil, but were prepared, as you were aware, for the information of the Jersey Company. Similar to what I showed you?

A Yes.

THE CHAIRMAN: The Chairman of the Board?

MR. FRAWLEY: The Chairman of the Board of the Royalite Oil Company, Mr.G. Harrison Smith. The Jersey Statements went to the Imperial Oil, but to be transmitted to the Royalite Company?

A That is correct.

Q Are these the only kinds of statements reducing the operations of the Company to cents per barrel?

A That is all I can recall at this time.

Q Well you have made some search of your memory have you?

A Well when you say statements, I may have been asked some time in years past to give a letter of the operating....

Q No, I mean these statements, routine statements that were supplied either month by month or year by year?

A That is correct.

Q We have them all in the Harrison Smith statements and the Jersey Statements?

A That is correct.

Q Now do these statements contain any depreciation of utility assets? The statements Exhibit "188"?

A No.

Q They do not, and why not?

A Why do they not? I suppose insufficient attention has been given in their preparation, that is all I can say.

Q Insufficient attention given to the preparation of the statement, Exhibit "188"?

A That is correct.

Q And that is all..... It was not because you could not have done it if it had been asked for?

A Well we would have had to make some arbitrary split of what those utilities and service units, how much depreciation should properly be charged.

Q That has been done for this Commission?

A That has been done by the Commission's accountans, I believe. They have given their opinion as to what.....

Q When you say Commission accountants you mean the Price, Waterhouse Company and Harvey & Morrison?

A Yes.

Q But you did not think it was necessary for Mr. Smith's purposes?

A No, I did not.

(At this stage the Hearing was adjourned until 2 p.m.)

::.....

T. E. BURNS, having been recalled, examined by Mr. Frawley said:

Q Mr. Burns, will you first describe for the record the binder of what we have been calling the Harrison-Smith statements, what period they cover, Exhibit "188"?

A They cover the year 1934 and the month of December, 1934.

Q The year 1934 and the month of December, 1934?

A That is right.

Q The year 1934 cumulative statement for the month of December?

A A statement for the month of December, 1934, and cumulative statement for the year 1934.

Q All on the one statement?

A That is correct.

Q Consisting of two sheets?

A Consisting of two sheets.

Q Yes, now for 1935?

A The same information.

Q And the same?

A For the month of December, 1935, and cumulative for the year 1935, and for the month of December, 1936, and cumulative for the year 1936; for the month of December 1937 and cumulative for the year 1937 and a statement for all months, January to November inclusive.

Q 1938?

A for 1938.

Q A statement for each of the months, January to December,

1938?

A And each monthly statement is cumulative.

Q So that the November statement brings it down to the end of November 1938?

A That is correct.

Q Now let me put on the record what the costs as shown by these statements were for each of the periods, for the year 1934, if you would be good enough to check the statements and see whether what I have abstracted from them is correct, in the year 1934, speaking of the yearly statements, the oil gathering cost was 7.52¢?

A .0751902 for the year.

Q Yes, I mean for the year.

A Yes.

Q Well I am reading it as 7.52¢ and it doesn't take all the decimal points.

A 7.51 or 7.519.

Q Yes, I mean if it is,to a reasonable decimal point, I do not want to take anything except what is right there, I suggest that a reasonable figure for the oil gathering cost for the year 1932 is 7.52¢, you say it is 7.519 and two or three more decimals?

A I say .0751902.

Q Dollars?

A Dollars, that is right.

Q Would you rather have it 7.51¢, I do not want any more than two decimals if you do not mind?

A I see.

Q 7.52¢, all right.

A That is all right.

THE CHAIRMAN: What is it?

MR. FRAWLEY: 7.52¢ for the cost of the oil gathering, the oil gathering operating costs, it might be called, could it not?

A The oil gathering lines expenses.

Q The oil gathering lines expenses, and for the trunk-lines expense 6.13¢?

A That is correct.

Q So in other words a total cost of 13.65¢?

A As indicated by this statement.

Q As indicated by these statements, quite so?

A Yes.

THE CHAIRMAN: Is that cents per barrel?

A Yes, cents per barrel.

Q MR. FRAWLEY: For the year 1934, the rate per barrel, it was 25¢, is that correct?

A That is correct.

Q For the year 1935, we will run through the same items n 1935, 1936, 1937 and 1938; in 1935, according to the statements Exhibit "188", the oil gathering cost was 9.81¢.

A That is right.

Q And the trunklines gathering cost 5.35¢?

A I have .05345.

Q You see we have checked, I do not know if it will help you any, these are Mr. Morrison's figures we have, only taking two decimals as against your five or six but I do not want to have any serious difference, I suggest it was 9.81 and 5.35, now will you accept

those?

A All right.

Q Thank you, so the total cost of 15.16, is that right? I mean it is 9.81 and 5.35 added together?

A Yes.

Q And during that period the rate in cents per barrel was 25¢ in 1935?

A 25¢.

Q In 1936 the oil gathering cost was 9.41¢?

A Yes.

Q And the trunklines gathering 3.76¢?

A That is correct.

Q Or a total of 13.17¢ per barrel?

A As indicated on the statements.

Q By Exhibit "188"?

A Yes.

Q And at that time checking that as against the rate, the rate was 25¢ per barrel to the 4th of October of that year and 22½¢ from the 4th of October to the end of the year?

A To the 3rd of October, 1936 the pipeline rate 25¢ and commencing on the 4th of October 1936---

Q 22½¢ from there to the end of the year?

A That is correct.

Q 1937, the oil gathering costs 3.46¢?

A As indicated by this statement, yes.

Q And the trunklines cost 1.70¢?

A Yes.

Q If we have picked up a decimal too quickly there, and you would like to correct it, that is all right is it?

A 1.70, that is right.

Q Or a total of 5.16¢ for the year 1937?

A That is shown on these statements.

Q And as against that we have a rate of 22½ to the 1st of September of that year 1937, right?

A That is right.

Q and 17¢ from the 1st of September to the end of 1937?

A That is correct.

THE CHAIRMAN: 22½¢ for what period?

MR. FRAWLEY: In 1937 it is.

THE CHAIRMAN: Yes.

MR. FRAWLEY: To the 1st of September and 17¢ to the end of the year, from the 1st of September to the end of the year.

THE CHAIRMAN: Yes.

Q MR. FRAWLEY: In the year 1938 I will ask you to take two periods, a period to the end of, to the 30th of September, 1938, Mr. Burns?

A Yes.

Q The oil gathering cost 2.65¢?

A No, .0265.

Q That is 2.65¢?

A That is right.

Q And the trunkline expenses 2.40¢?

A Yes.

Q Or a total cost of 5.05¢, that is just the addition of those two?

A It is 5.05.

Q Right?

A That would appear to be true from these statements.

THE CHAIRMAN: Now those dates are what?

MR. FRAWLEY: That is for the year 1938 to the end of September, in other words for the first nine months of 1938.

Q MR. FRAWLEY: Now to check that against the rate, Mr. Burns, the rate was 17¢ to the 4th of January?

A That is correct.

Q And 15¢ from the 4th of January to the end of the year?

A That is correct.

MAJOR LIPSETT: To the end of this period, is it not?

MR. FRAWLEY: Yes, to the end of the period, that is right.

THE CHAIRMAN: You have to the 4th of January.

MR. FRAWLEY: To the 4th of January it was 17¢.

THE CHAIRMAN: Are you just taking in those four days?

MR. FRAWLEY; Yes, 17¢ to the 4th of January, 1938 and 15¢ to the end of the year, 1938.

Q MR. FRAWLEY: Now I want one more figure, Mr. Burns, take the period to the end of November, 1938, adding two months, the oil gathering cost was---

THE CHAIRMAN: Just a moment.

MR. FRAWLEY: You see, Mr. Chairman, in the year 1938 he has a statement for each month and the whole year cumulative to the end of each month, and we are just taking to the end of September and now the last one to the end of November.

Q MR. FRAWLEY: The oil gathering charge cost 2.81¢?

A That is correct.

Q And the trunkline cost 2.53¢, that is correct is it?

A That is what is shown on these statements.

Q And a total cost for the year 1938 for the first 11 months of 1938, 5.34¢, that is correct?

A That can be taken from these statements.

MAJOR LIPSETT: Just a minute, Mr. Frawley, the 5.34 for those two months.

THE CHAIRMAN: No, 5.05.

MR. FRAWLEY: The 5.05¢ is the cost for the first nine months and then you add two more months to that and you get 5.34.

MR. HARVIE: That is for the eleven months' period.

MR. FRAWLEY: Yes, you add two more months and you make it eleven months out of it instead of nine and you have the eleven months' period against the nine months' period and you get 5.34, that is the point.

MAJOR LIPSETT: Then the 5.34 is not the October and November figure.

MR. FRAWLEY: Oh no, it is cumulative. We take the first figure of 5.05 from the September sheet, which shows up to September and then we go to the last one we have, the end of November sheet and that shows cumulative to the end of November, 1938. We only did it to show, we are only putting in the November period, Mr. Chairman, because we have that in so many of our other records you see.

THE CHAIRMAN: Well for the whole eleven months the cost of gathering in trunkline operations was 5.34.

MR. FRAWLEY: 5.34¢.

THE CHAIRMAN: Per barrel.

MR. FRAWLEY: That is correct, sir. The other figure you might have put brackets around it, it is an intermediate figure, the 5.05¢.

THE CHAIRMAN: Apparently it increased so much in the last two months, which brings it up to 5.34.

MR. FRAWLEY: Because it is suggested, Mr. Chairman, and Mr. Burns would know, it was because the throughput went down a little bit in the last two months?

A I think so, that could account for it.

Q Yes, that could account for it, Mr. Burns said. I suggest you may find that 5.05¢ valuable at some point where you are comparing it with some other statement which we have.

MR. NOLAN: Let me be quite clear, is Commission Counsel with the assistance of the auditor to the Commission, putting these figures forward to the Commission as being the expenses incurred in both the trunk and gathering lines of this pipeline system because if they are I propose to go into each of these items and to show the incompleteness of those and it must be known now to Mr. Morrison that they are incomplete and I do not think that it should be put forward as figures upon which this Commission can rely.

MR. FRAWLEY: Well now, if Mr. Nolan will just give us an opportunity, we have never at any time been under

any impression except that their figures were not complete.

MR. NOLAN: That is right.

MR. FRAWLEY: There was never any question about it at all.

MR. NOLAN: Why are you putting them in?

MR. FRAWLEY: Because they were good enough to send to Mr. G. Harrison-Smith and I do not see why the Commission should not ve them brought to its attention.

MR. NOLAN: So long as it is distinctly understood they are incomplete I have nothing more to say.

MR. FRAWLEY: Your witness said so in answer to every single question I asked him and said it several times this morning but I will ask him about that now, we know how much they are not complete but I will ask him right now to what extent are the figures sent monthly to Mr. Smith incomplete, just list, just explain fully in what respect they are incomplete.

A Well with regard to the statements of the oil gathering trunks delivery system for the year 1938, I would say that they contain an inadequate portion of Royalite general administrative expenses.

Q Yes?

A They contain no portion of the income tax, no portion of the corporation tax, no business tax, no taxes on land occupied---

THE CHAIRMAN: Don't go so quickly, you say an inadequate portion of administrative expenses?

A That is correct.

Q Yes?

A No income taxes.

Q That is next is it?

A Yes.

Q Yes.

A No corporation tax nor portion of the corporation taxes applicable to the pipeline division, that is what I meant to say; no portion of the business taxes; no taxes on land occupied by the pipeline division; no proportion of depreciation on service units and utilities; no charge for the acquisition of rights-of-ways of pipelines; no proportion of legal fees; no proportion of director's fees; no proportion of auditor's fees; no proportion of abandoned equipment losses or service units and utilities; no items of gain or loss on sale of pipeline assets; no proportion of gain or loss on sale of service units and utilities, capital assets; no proportion of Royalite general costs covering vacation expenses, employees' welfare, sick benefits and employees group assurance, premium; no proportion of Royalite's general Workmen's Compensation Board contribution; no depreciation on pipeline automotive equipment or sundry plant; that is the list which I have described as being certain of the items. I have not gone into it fully but I do know that those items are items which have been omitted from the pipeline costs with respect to the year 1938 as shown in this Exhibit "188".

Q MR. FRAWLEY: Would that also be true for the prior years to?

A No. I have said in this memorandum and perhaps I

should read it.

" For prior years the distribution of indirect expense was very inadequately made by the application of operators' labor only to the total labor of all other departments, both on account of capital and operations but among other things did not include Dominion Income Tax, Captail Gains and Losses, Abandoned Equipment Losses on Service Units, No proportion of Taxes or Depreciation on any of the Utilities or Service Units, No cost of the Acquisition of Rights-of-Way for pipe-lines, etc., all of which would make the statements of no value to the Commission."

Q MAJOR LIPSETT: Does it include, Mr. Burns, the profit that was obtained on this pipeline loss account?

A I will have to see, no it does not, not for the year 1938.

Q That profit as appears by Exhibit c-8, of Messrs. Price Waterhouse's account or Exhibit "100" was 1.83 of that?

A Yes, that would be another item which would tend to make those statements more incomplete.

Q Yes, but it would reduce your figure of course, that 5.34, to begin with would have to be reduced by 1.83 on that basis, would it not, if that is the correct figure?

A Well I have no information with respect to the figure

of the profit in the year you see. If you say it is 1.83 then I will assume with you that that is what it is.

Q I am not saying it, I am putting it to you what Messrs. Price Waterhouse have put in before us for that nine months?

MR. NOLAN: Is that not, Mr. Commissioner, a different thing from the itemized column of expenses such as we have been dealing with now?

MAJOR LIPSETT: I was trying---

MR. NOLAN: That is revenue.

MAJOR LIPSETT: Messrs. Price Waterhouse's figure on c-8, Mr. Burns, and perhaps I should put it to you, leaving out those items which you have left out, they show a cost of 4.64 against your figure of 5.34?

A Well I know---

Q Have you not seen it before?

A No I have not, but I believe there is a Price Waterhouse Company man here, I have not gone into this.

Q MR. NOLAN: That c-8 of 100 to which we are now looking?

A Yes.

Q And the Commissioner's question---

Q MAJOR LIPSETT: You see in the last column the figure of 4.64?

A Yes.

Q Now that is to include all operating direct and indirect costs?

A Oh, but this has been made on an entirely different

basis, this statement, I do not know much about it.

MR. NOLAN: I have Mr. Maw here this afternoon, sir, if you would like to put that question to him.

MAJOR LIPSETT: I am trying to really get an explanation of Mr. Burns' figure at the moment.

MR. NOLAN: What figure, sir?

MAJOR LIPSETT: The figures which are in the Harrison-Smith statements.

(Go to number 4575)

A I would say these two statements are not comparable in any way and should not be used, one in conjunction with the other. They are hopelessly different.

Q MR. COMMISSIONER LIPSETT: Which of them do you think we should rely on and which we should not rely on?

A I have said many times that you should not rely on these that I have prepared. No, I have not gone sufficiently into Price, Waterhouse Company's statements to express an opinion, they are prepared entirely independently from our work, They worked in our office and got the information, but I had nothing whatever to do with that preparation.

Q What I am putting to you, Mr. Burns, and trying to get your explanation of is if we accept your suggestion of disregarding the Harrison Smith figures, as not accurate, the only other figures I see we have are Messrs. Price, Waterhouse's, and I am pointing out to you that they appear to show a less cost than the figures you ask us to disregard?

A As I understand you, sir, you are asking me to make a comparison between these two. I cannot offhand make a comparison because I do not know sufficiently about the Price, Waterhouse Company's statement.

Q You see the point I am putting to you, Mr. Burns, - I am not putting it to you in any other way except to get information from you if I can - this figure that you say now should not be accepted is a figure of 5.34 for the total cost, omitting those items you have given. Here is the thought I want to put to you. The corresponding figure on Messrs. Price, Waterhouse's statement, which does include a number of those items you say are omitted, shows a still lesser figure of 4.64.

MR. NOLAN: No, because you have not put in the 1.88, which is the amortization figure, which has to be added to the 4.64 and makes a total of 6.52.

MR. COMMISSIONER LIPSETT: The amortization is not in either figure, I take it, is that not correct? The amortization is not in the Harrison Smith figures?

A There is depreciation, represented by direct depreciation of the pipeline assets alone as it has been booked by the company. But Price, Waterhouse & Company would not use depreciation on this basis.

Q Now, I understand, if I am right, Mr. Burns, I do not want to rush you or anything, but I want to get the exact position. I understand that the 5.34 figure used is incorrect because it leaves out these various indirect charges?

A That is correct, sir.

Q And also depreciation and amortization and taxes?

THE CHAIRMAN: And pipeline automotive equipment and sundry plants.

A It leaves out depreciation on all utilities serving it.

MR. COMMISSIONER LIPSETT: Yes.

THE CHAIRMAN: You do depreciate the line?

A It includes depreciation of the plant of the pipeline division.

Q MR. COMMISSIONER LIPSETT: When you come to Price, Waterhouse's figures, taking in all operating costs and before amortization, their figure shows 4.64 cost per barrel up to that stage?

A Yes, but both Price, Waterhouse & Company and Messrs. Harvey & Morrison have worked on an entirely different basis from this. As I understand it, they have not at any time been interested in the result of their splits of

overhead. They have used a different life for the extinguishment of the assets.

Q That does not apply up to this point, surely, up to this point we are at now. It is the costs, direct and indirect, is it not, leaving out amortization?

A Well, let us see Price, Waterhouse & Company's figures. They take here administration charges distributed on the basis of the ratio of direct operating labour of the pipeline department to the total operating labour 13.5849% of $102,000.00. We have not used that basis in these.

Q I am assuming that. That is probably the reason why your Harrison Smith account figure is half a cent per barrel or a little more than that more than Price, Waterhouse's. If we disregard the Harrison Smith statement what statement do you say we should rely on?

A Well, sir, I have said previously that no one can ever make a true statement on this and I say that with all due respect and deference to the accountants who have assisted this Commission - that any statement which we prepare can only be an arbitrary figure, an estimate, or based on a formula to determine what, in their opinion, may be correct. At the moment I cannot tell you which accounting statement you should take. I do not know.

THE CHAIRMAN: You would recommend the Price, Waterhouse's, wouldn't you, as a preference?

A As a preference I would, sir, yes.

Q However, I am not being serious about that. But I do want to ask you, supposing it was important that this perplexity should not be perpetuated what should you do about it from now on. Anything, or would it be always

the same position that we do not know what the indirect costs are; we do not know this and that; we have to have arbitrary allocations?

A They can only be arbitrary at any time. The office which I occupy serves many companies and everything that is in that office serves that same group of companies, and departments within the companies. Now, how much of that office rent is applicable to the pipeline division of the Royalite Oil Company as against the crude oil operations of the Dalhousie Oil Company I can only guess. I can only estimate. No one could tell.

Q Do I understand then if the pipeline department was made subject to Governmental regulation and if the rest of your company were not, that you have no means as a matter of accountancy of separating your costs?

A Some one would have to fix them.

Q You say in the first instance costs must be, or some proportionate part of the total costs must be allocated to the pipeline department?

A That is correct. Some one, some impartial person or, perhaps, some person of the company who had knowledge of this matter would have to make some split, but that split would have to be his opinion.

Q So that you have no views as to what would be the simplest way of keeping this department clean-cut from the rest, I mean as to the practical method of approaching it. Would it be in say a division of the assets according to what might be said to be the approximate investment made or the proprietary ownership by one or other departments and a rental charged by the others. I am trying to find out if you can think of any practical means. I mean

the mere matter of uncertainty in accountancy will no doubt not deter any regulatory body from regulating, and I am just finding out, with your experience, if you cannot suggest how such a thing might be accomplished?

A Yes, since you put it that way. There are going rates for electric power, which supplies the pipeline division. One department of the Royalite could charge the pipeline division those going rates. Royalite buys plenty of power from the Calgary Power Company. We know what the rates are. And there are going rates in Turner Valley for gas to be supplied to drilling boilers and, as a matter of fact, it is without a very great deal of difficulty that these going rates for these services could be established and with regard to the example that I gave you a little while ago of my office, there is nothing to prevent the Royalite Oil Company from fixing, in its own opinion, and it could be submitted to the Board of Directors if necessary, to say how much they will add to the accounting of the pipeline division for that.

Q There is no real practical obstacle outside of the inconvenience and so on?

A That is true, sir. But in the past.....

Q There has been no occasion for it?

A There has been no occasion for it and it has not been done.

Q I just want to know if you with your world of experience behind you would say there is anything impossible about it?

A No, there is nothing impossible. It could be done very easily.

Q So it would not be necessary to take a measure of control of the whole company in order to regulate one department?

A That is true, sir. It might, however, result in some instances in hardship upon the company. That is to say

with regard to the splitting of the income tax, if that idea which I have just given to you was to be carried out to its full conclusion, we would have the pipeline division reporting its profits to the several tax branches separately from the other?

Q Yes?

A That the company as a whole may be put in the position of paying more taxes if that was to be done. There may be other things which given time I can think about. No doubt.....

Q Oh, yes.....

A There will be problems to overcome.

Q Just in the same instance you pay more tax of that character because Royalite and Imperial are separate companies. I mean on the same reasoning?

A On the same reasoning, yes, that is true.

Q Would it seem to you more workable if the pipeline department were a separate, legal entity?

A More workable. No. It would seem to me that the cost would be enhanced. I think really the pipeline department benefits very greatly from the fact that it only should take a proportion, what proportion it is I am not prepared to say, but the fact that it only takes a proportion of the Royalite's overhead and administrative cost it benefits greatly as it is.

Q What would there be in a practical way to prevent some working arrangement if they were two entities, each getting the benefit of that which they had in common. Nothing impractical about that, is there?

A Nothing tangibly impractical that I can think of at the moment.

Q Just judging from this Commission it may be the thought behind it that the regulation of this pipeline - there may or may not be, I have not any more knowledge than you have of any greater regulation but I am trying to ascertain with some clarity if I can for my own thinking, if there is an absolute need to regulate the whole of the activities of the Royalite Company in order to regulate the pipeline department. It seemed to me that was not so. Hence these questions to you, Mr. Burns.

A Yes, I can think of nothing very tangibly difficult about...

Q About the severance?

A About the severance, no. Not at this moment I cannot.

Q MR. COMMISSIONER LIPSETT: On that income tax question, Mr. Burns, would it make any difference in the income tax, taking a purely fictitious figure, say the profits of the whole Royalite Company were $300.00 and you said that the pipeline profits were $100.00 and the rest of the company $200.00. If they were separated in that way would that make any difference in the income tax. I did not quite follow you there?

A It could make a difference, yes.

Q THE CHAIRMAN: It would work against you, the bigger your income the higher schedule you get into?

A No, not with regard to corporations, sir.

Q Oh, yes, corporations.

Q MR. COMMISSIONER LIPSETT: I do not quite follow where there would be any difference. Suppose the profits of the Royalite were taken at $300.00. Would it make any difference if you segregated those into $100.00 for the pipeline and $200.00 for the rest of the company?

A Yes, it would.

Q Perhaps, you could explain it?

A Well, the Royalite at the present time pays income tax on a slightly different basis from other companies. I cannot quote exactly from the Income Tax Act but I do know that it pays, that the depletion calculation with regard to Royalite is made on 25% of the net operating income of the company as a whole, less income from investments and from rents and royalties.

Q That is on account of the wells. That takes the life of the wells at four years, is that what you mean?

A No, it is 25% of the net operating income of the company.

Q I see.

A The whole company.

Q Yes?

A With the exception that we are not allowed depletion on the income from investments, bond investments, nor from rent of land nor from royalties. But the other companies take 25% of the gross operating revenue. The Dalhousie Oil Company, for example, takes 25% of its gross operating revenue, a much larger figure for depletion. That is, it takes it up to a certain point and until the development costs have been repaid and then it is only entitled to take 25% of the net. Royalite is only entitled to take 25% of the net from the beginning, you might say, but with the exceptions it is 25% of the income of the company including its pipeline revenue.

Q Would that not rather indicate there would be no alteration by keeping your pipeline revenue and the rest separate, if Royalite is entitled to take 25% of the net for both. Would it make any difference in the income tax if you kept the pipeline separate from the rest?

A I think you can see we do get, perhaps, a larger allowance for depletion. At least the pipeline revenues would not

have been subject to depletion. We, perhaps, would then go back to the Income Tax Department and we would ask to have a new method determined. We did not determine this rate. There was nothing we fixed up. It was the Income Tax Department made the ruling themselves.

MR. HARVIE: One place the Imperial does not control.

Q MR. FRAWLEY: Now, Mr. Burns, looking at the statement Exhibit "188". That statement shows that indirect costs of operation of the electric plant, boiler plant, etc. were distributed on some basis?

A Oil gathering lines expense, is it?

Q No, boiler plant and electric plant expense. Let us go back to 1934. Yes, on the second page of the 1934 statement?

A Yes.

Q As I say, that shows that that indirect cost was distributed on some basis. On what basis, Mr. Burns?

A An arbitrary basis.

Q What foundation, what basis, be it however arbitrary?

A The boiler plant. There are very few meters for steam and I doubt if there was any at that time. We would just get the opinion from someone who might have knowledge of the matter. And I may say, too, in that connection, that that would not include any depreciation of the boiler plant nor any tax on it.

Q Now, I am coming to that. I just asked you on what basis these indirect costs that were distributed were allocated?

A I cannot say that. We generally change the allocations each quarter. We strike what we consider from the advice that we can get.....

Q Yes?

A What percentage to be charged in that succeeding three months.

Q The suggestion I have for you, of course, is why could not you have distributed the depreciation of these assets on the same basis?

A It was never necessary for us to do it. We did not try to earn anything by them.

Q You might have done it, but you just did not do it. It did not seem useful at the moment to do it?

A That is correct.

Q You do show the percentages. These statements show the percentage of general overhead distributed to the pipeline division?

A That is correct.

Q And on what basis was that percentage arrived at?

A That was arrived at, as I have said before, it was very inadequately made by the application of operators' labour only to the total labour of all other departments both on account of capital and operation.

Q Now, you have an item in your statement "Abandoned Equipment Losses." Statement Exhibit "188" again?

A Yes.

Q Take 1934 or any one year. I do not suppose it matters. It has been stated as a charge against operations, has it not?

A Yes, it has in these statements.

Q I presume if we had a statement for 1932 - have you got a similar statement for 1932?

A I cannot say.

Q If one were made up for 1932 it would show that 6-inch

Loop was treated in the same way. To be consistent, it would be treated that way, would it not?

A I presume it would, yes, for the purposes of this statement.

Q Yes, again for the purposes of that statement, surely. Now, is there some depreciation shown for direct assets on these statements Exhibit "188"?

A Yes.

Q Take the one for the period ending 30th September, 1938. Does the depreciation on direct assets shown on that statement Exhibit "188" differ from the depreciation on the direct assets shown in the books for 1938, because that takes us to Exhibit "157", Mr. Burns.

A Well, it should not, to be consistent.

Q Can you tell by looking at Exhibit "157", which, as you know, was made up by Mr. Morrison from the books of the company?

A Yes, well, we have already given Mr. Morrison a reconciliation of that statement. We gave it to him on Saturday.

Q A reconciliation of.....

A Yes.

(Page 4586 follows.)

Q I suggest to you this was not made for Mr. Morrison?

A It was, it was given to him on Saturday, it was sent to him along with this book, it was right in the book.

Q It was made for the Commission, was it not?

A Well he is the Commission accountant.

Q No, no, but in any event whatever he is, it is made for the Commission and you are now offering it to the Commission?

A That is it.

Q I was really leading to this statement, what are you offering now so that we can have it marked, Mr. Burns?

A This is a reconciliation between the statement, between the statement for September 30th, forming a part of Exhibit "188" as between the statement submitted by Mr. Morrison and known as Exhibit "157".

MR. FRAWLEY: Yes, that will be marked, sir.

THE CHAIRMAN: Exhibit "189".

(STATEMENT PRODUCED HERE MARKED AS EXHIBIT "189").

Q MR. FRAWLEY: Now, Mr. Burns, that is a reconciliation between the books and the exhibits, Mr. Morrison's exhibit "157"?

A That is correct.

Q In other words let me lead up to it---

THE CHAIRMAN: Between the books and Exhibit "157", which is what?

MR. FRAWLEY: Which is Mr. Morrison's statement 157, which is a statement from the Company's

books showing the cost of operation for the nine months ending 30th September, 1938, oh, it is my fault, it is a reconciliation between the statement 157; namely the books of the company and the statement 188, the Harrison-Smith statement, that is really what it is, is it not?

A Yes, and with regard to the books of the company it is this memorandum book which I have referred to, it is written on ledger paper but really not intended to represent the books of the company.

Q Now it is suggested to me, so we will know just what it is, it is a balanced ledger.

MR. NOLAN: And again I ask Commission Counsel is he relying on these allocation figures or is he not because I would like to know.

MR. FRAWLEY: I want to put this before this Commission, everything which would appear to be of some assistance to them.

MR. NOLAN: We were told in the early stages that those were being disregarded by both the firms of accountants.

MR. FRAWLEY: Mr. Morrison's statement speaks for itself. It speaks for itself and we would not have had this discussion at all if persons other than yourself and myself had not got the evidence out the other day that there were such statements in existence.

Q MR. FRAWLEY: What you are now submitting, Mr. Burns, is a reconciliation of the Harrison-Smith statements and the books of the company for 1938, these books being the ledger you speak of.

A The memorandum book ?

Q The memorandum book but I put it to you again so that we will be clear, it is properly described as a balanced ledger, is it not?

THE CHAIRMAN: Is this Exhibit "188" we are talking about, Exhibit "188" as against "157"

MR. FRAWLEY: Exhibit "188" as against "157".

THE CHAIRMAN: Is the balanced ledger.

MR. FRAWLEY: Is the record of the company from which Exhibit "157" was taken, is a ledger, it is what Mr. Burns called a memorandum ledger.

THE CHAIRMAN: A memorandum book.

MR. FRAWLEY: A memorandum book and which I suggest, just to know what it is, that an accountant would call it a balanced ledger.

A Well it is not the general ledger of the Royalite Oil Company.

Q MR. FRAWLEY: All right, for my part I do not want to spend any more time on it than that. Now Mr. Burns, will you reconcile then, will you first answer this question though I shall lead up to it, the Harrison-Smith statements do show depreciation on direct assets?

A They do.

Q That depreciation differs from the depreciation on the direct assets shown in the books of the company for 1938 which you have just described?

A Yes.

Q The memorandum ledger?

A Yes.

Q And from which Mr. Morrison extracted the statement Exhibit "157"?

A That is correct.

Q Now will you explain and that I presume is what your reconciliation statement Exhibit "189" is for?

A Yes.

Q Will you explain that difference?

A Yes, the difference of depreciation amounts to $4,186.93.

Q Now first of all the Commissioners have not got it, and there is only one copy apparently, that is what the witness is now using, the difference in the amount of depreciation as you said before amounts to $4,186.93.

A The difference is made up by depreciation not taken out by us on the automobiles, office furniture and sundry plant of the pipeline division in the amount of $4,050.50 which was taken up by Mr. Morrision.

Q And by this memorandum book of yours?

A It was taken up, yes, by the memorandum book, that is correct.

Q Yes?

A Depreciation on the field pumps for the month of May was not taken up on our statement in error; in other words we made an error in the statements.

Q Correct, that is the reconciliation?

A That is the reconciliation with respect to depreciation.

Q Now is there anything else to be reconciled between those two statements or is that all you were asked to

[illegible]

[illegible]

[illegible]

reconcile?

A Well there is a complete reconciliation here bringing it up to the difference between Mr. Morrison's statement of $1995.85 and our own.

Q Yes, well now just relate that, Mr. Burns, to the cents per barrel, what this reconciliation should do is show the difference explain the difference between 5.05 cents per barrel which is the Harrison-Smith figure and 4.9817¢, which is Mr. Morrison's figure taken from your memorandum book, and shown on Exhibit "157", is that right, or is that the effect of it?

A Yes, I have 5.05 against 4.98, is that right?

Q That is right, and that would explain it.

A But always subject to the facts that these statements and the memorandum book does not include or does not contain all of the proper expenses to the pipeline division.

Q Yes, that is right.

Q MAJOR LIPSETT: You have not made any calculation, Mr. Burns, as to what those excluded items would amount to in cents per barrel, have you?

A No.

Q How much it would increase this cost figure?

A I have not made any calculation, sir.

Q MR. FRAWLEY: Now, Mr. Burns, will you now, I want to direct your attention to a question and answer on page 4032 of the Record, the evidence of the 9th of February---

THE CHAIRMAN: Is this the breakdown.

MR. FRAWLEY: It is the breakdown.

Q MR. FRAWLEY: At that time you said that you would analyse the items, you agreed with my suggestion that you analyse, I took it anyway you agreed with my suggestion, although the record does not show it?

A I did.

Q That you would analyse the items making up the $17,820.17, let us describe that at the moment, because it will look very lonesome in this record.

THE CHAIRMAN: What page.

MR. FRAWLEY: Page 4032, the item that you would analyse the items making up the $17,820.17 appearing on Exhibit "157" as administrative and general expenses, to find out which are percentage figures in those items and then finding out what the percentage applied was and using that method and you have, you now offer this Exhibit to explain that do you?

A I do, yes.

Q And what do you call it, Mr.Burns?

A Well an analysis of pipeline division, administrative and general expenses. I might add as shown by the memorandum ledger.

Q Exhibit "157", as shown on Exhibit "157"?

A Yes.

(STATEMENT PRODUCED BY WITNESS HERE MARKED AS EXHIBIT "190")

Q Now will you run over that Exhibit, please, Mr. Burns, and show us what those proportions are and how they are made up?

A Well I have shown there what they are. I cannot say at this moment how they are made up, that is what percentages have been used, I did not understand that to be part of what I was to do. You merely asked, as I understood you at any rate, I am sorry if I have been wrong in this.

Q Yes, I had in mind as appeared from the question, Mr. Burns, that you should find out which of the items making up the 17 thousand, were percentage figures and then go further and find out what the percentage applied was, and using what method?

A Well---

Q You did not do that?

A I can say it was purely an arbitrary method, Mr. Frawley.

Q Mr. Burns, you might recall if I suggested to you, that the distribution, that the percentages were these, 22.4% of administrative expenses and 9% of general office expenses, 9.6% I mean of general office expenses?

A Those sound reasonable, yes.

Q They sound familiar do they not, they are the 1938 figures, are they not, as appearing in what you call the memorandum book?

A Yes.

Q Now those being the percentages, 22.4% for administration expenses and 9.6% for general office expenses, who selected those figures and how were they selected?

A Well it was done under my own supervision, I did not personally do it but I must be responsible for it.

Q Cannot you tell us anything more about them at all, what basis was used, was it a revenue or a labour ratio basis or what?

A Yes, I can tell you that I inquired about it , the man in the office who actually made them took what he considered Mr. Coultis' salary to be.

Q Well he would know that would he not?

A No, he does not know it.

Q He just assumed a certain figure for Mr. Coultis' salary?

A Yes, he assumed $600 a month but that may or may not be correct.

Q Well then what did he do after that?

THE CHAIRMAN: I suppose somebody knows it, at least Mr. Coultis knows what his salary is, doesn't he?

A Yes, he knows.

MR. FRAWLEY: Well anyway---

Q THE CHAIRMAN: You do not arbitrarily pay him?

A No.

Q MR. FRAWLEY: If you did he might just arbitrarily bring that oil in for you some day, Mr. Burns?

A Well that is what was done and that is a fact, he assumed that much money and he was without any actual knowledge of the amount of what it was, but even then he found out that he made an error, not in his salary but what he intended to do was, he assumed the salary of Mr. Coultis and his stenographer, he knew what that was and I have explained it on here.

Q I had better not ask you why?

A An error was made in this; the salary of the stenographer was included in this figure and is also shown as a direct charge as salary of employees in the amount of $1062.50 which appears there.

Q Is that one of the reasons, by the way Mr. Burns, that some of these things having been discussed with the accountants, both the Harvie Morrison and the Price Waterhouse accountants at the beginning of this, is that one of the reasons that led to the abandonment of the allocation shown in the books?

A Yes, I may say that the other day, after wholly realising the inadequacy of these splits I have ordered that all these proportions be reversed and we are in affect leaving no attempt on the books of the company to split the indirect expenses applicable to the pipeline division,, so that the memorandum ledger will not contain any proportion of administrative or general costs now.

Q So you cannot tell us anything how the proportions, how about the percentages, that same percentage figure was used, or are you just taking that then, Mr. Burns, taking these figures as I have suggested to you as being correct, it means that these items, the next item of operation of Calgary's office $3808.54, that was divided on the basis of 22.4%, using Exhibit "190"?

A On that.

Q Yes.

A Oh yes, that is correct.

Q That is correct?

A As nearly as we can recall that is the percentage which was used.

Q And that is all you can say about the manner in which these percentages were arrived at?

A That is all I can say.

Q There is only one thing more I might call to your attention, and I do not know whether, I think I should dispose of it, on page 4042 of the record Mr. Commissioner Lipsett was asking you about something which you might do to Exhibit "157", using "157" as your basis, what have you to say about that, were you able to do that?

A No, I was unable to do that and it would take some, I would say at least two to three wekks to make the comparison if, I am quite willing to do it however if I have the time.

Q That is all Mr. Burns.

A Now I have brought something with respect to corporation taxes, I do not know whether you are interested in it now, it shows a statement of what we paid I believe and I was asked that the other day.

Q Oh I see, the corporation tax going back to 1924, what you paid under the corporation tax Act for the years 1924 to 1938 inclusive?

A That is correct.

Q And this shows in 1937 you began to pay under the new section, 17A, that was drafted for your company?

A That is correct, yes, well we paid $20,000 adjustments for prior years.

Q Yes?

A And then the corporation tax for the year 1938 is shown as 30,000, I think that is the question, the particulars of it I was asked if I recall it.

Q We will file this, sir, this is a statement showing the corporztion tax which the company paid, I do not recall it being asked for and I do not know if it is important.

THE CHAIRMAN: Well someone must have had some purpose in asking for it, it may come back to you, it will be Exhibit 191.

(STATEMENT OF CORPORATION TAX OF ROYALITE OIL COMPANY HERE MARKED AS EXHIBIT "191").

WITNESS: Didn't you say Mr. Nolan it was $35,000 for the year and you could find it or something.

MR. NOLAN: It arose out of a discussion about the amount which was contained in the Price Waterhouse statement of $35,000 and then my friend corrected me and said it was $23,000 and then we looked again and found that that $23,000 was for the nine months period and then nobody knew why it should be $35,000 for one year and $23,000 for another.

THE CHAIRMAN: And there was some discussion about your company being selected for special legislation.

MR. NOLAN: Yes. Then this statement shows that the $35,000 is not an annual corporation tax payable by this company but there was an adjustment made, you know about that Mr. Frawley.

Q MR. FRAWLEY: An adjustment covering the earlier years?

A Yes.

Q When you paid a small amount of $550?

A From 1932 to 1936.

MR. NOLAN: Yes, and that was adjusted and the larger amount of $20,000 was paid to cover it.

WITNESS: We paid the tax on the capital, the same as any other company.

MR. FRAWLEY: I know, and when one speaks of special legislation, the income, the Dominion Income Tax people have dealt with this also.

Q MR. FRAWLEY: Is there anything else, Mr. Burns?

A Nothing more that I have.

THE CHAIRMAN: Anything more for Mr. Burns?

MR. PLOTKINS: I would like to ask a few questions, examine Mr. Burns on a few matters.

Q MR. PLOTKINS: Would it be fair to say, Mr. Burns, that the reason you are unable to properly allocate the indirect expense is because the Standard Oil of New Jersey in order to make uniform the procedure of allocating those indirect expenses has given you an allocation in percentages, I mean under Exhibit "156", I believe you gave us a number of percentage figures?

A What are you putting to me now, I do not understand you, you say, would it be fair to assume something.

Q No not assume, would it be fair to say that in view of the fact that your office is not in possession of the full knowledge as applying to administration expenses, indirect expenses, that is general overhead expenses, is it fair to say, that you yourself or

your employees are not in full possession of the figures, the individual figures we will say with respect to salaries for instance?

A Well in the prior question you said something about the Standard Oil of New Jersey and I cannot just, I am sorry but I was not able to follow that.

Q When it comes to the thing of operating costs there is no difficulty on your part, you are in a position to obtain all the direct operating costs?

A Obtain all the direct operating costs?

Q Yes, in the pipeline division?

A Well we have things here to show that we are not.

Q I mean, the operating costs, is there any difficulty in ascertaining the salary and the actual expenses?

A No, there would be no difficulty.

Q But when it comes to ascertaining---

A The salaries, now that is another matter, you see there is an indirect expense, what I am saying, that there would be no difficulty in obtaining the salaries of anybody, that is what I mean.

Q There is no difficulty in obtaining the salaries?

A No, if I was interested which I am not.

Q Now in this case to complete the cost figures that have been submitted today it would be necessary to find the amount of money that should be charged and added to these statements that is represented by the indirect administration and service utility costs, is that correct.

A Would you mind reading over that question once more.

(Reporter reading):"Q. Now in this case to complete the cost figures that have been submitted today it would be

necessary to find the amount of money that should be charged and added to those statements that is represented by the indirect administration and service utility costs, is that correct?"

A In order to complete the statement it would be necessary to ascertain what the indirect costs were, does that answer your question?

(Go to number 4600)

T. E. Burns.

Q No, but to ascertain the amount that someone would allocate - in other words someone would have to allocate the missing items if it is not possible to properly ascertain them in your organization?

A Did not Mr. Justice McGillivray ask me these questions about it? I want to be sure if I have to be repeating these things. He asked me, as I recall it, if it would be difficult supposing this Pipe Line Division was divorced from the Royalite Oil Company, would it be difficult to do and I replied it would not present any great difficulty.

Q Is that the same question I put to you?

A That is what I understand it to be.

Q No?

A Well could you perhaps ask shorter questions and then we will get it clearer.

Q Well, put it this way, the Standard Oil of New Jersey has a number of similar companies, similar companies as the Royalite. I mean they have producing companies and pipe line companies?

A Similar companies in what way?

Q Crude oil producing companies?

A Yes.

Q Crude oil producing companies and pipe line companies?

A Pipe line operating companies, yes.

Q And in the case of separate pipe line companies operating in the United States belonging to the Standard Oil Company of New Jersey they would accumulate experience in the form of percentage figures as attributed to Indirect Costs, in other words, utility costs?

A I believe, Mr. Plotkins, that most of these companies

operating in the United States are separate legal entities. They are not connected. To that extent they are not similar to the Royalite which has, after all, its own gas business, its own oil business and is in the pipe line business..

Q To that extent they would not be similar?

A That is a very great extent.

Q Wait a minute now. I am going to bring out something in another way, being that you could not understand the first question. If we assume that the Standard Oil of New Jersey has over a number of years accumulated what it costs in percentage to operate the administration and indirect, the utility assets, and we will assume for a minute here that they have found that percentage and 20% would be the average figure on all their companies, and if they wanted to complete your statement that you went to Mr. Harrison Smith, they would, in their good judgment, merely add that particular figure, because it represents the actual average experience figure, would it not, Mr. Burns?

A I do not know what they did.

Q Would that be sensible?

A No, I do not think so.

Q Did they in some cases - I understood and I may be wrong in connection with Exhibit "156", you received from the head office such percentages and you used them and weighed them against your general overhead, and you arrived at a dollars and cents average to that particular statement?

A I will just have to see that Exhibit "156". What it is. No, these are made up right here.

Q But I see here North West Company Limited, distribution of General Administration Expense and Office Expense. That is right is it not?

A Yes.

Q This is what this statement represents?

A That is correct.

Q You have told us in your previous testimony that the salaries of Mr. McLeod, and if I remember right, other administrative expenses are not paid by the Royalite?

A That is correct.

Q But they are charged to you by the Imperial Oil office in Toronto, in a lump sum?

A Sarnia.

Q Sarnia?

A Yes.

Q They are charged to you by instructions in the form of a debit note, I would presume?

A That is correct.

Q Now Sarnia, being in full possession of the total costs, these particular costs, would be in a position to order you to allocate them on a certain percentage basis. In other words, they could say 10% represents a fair amount of the administrative costs that we want you to attribute to the operations of the Royalite Oil Company, and on that basis we want you to allocate 20% of that to this operation and 20% to another operation and 60% to some other operation. Is that not in theory what actually happens?

A No.

Q That is not what happens?

A No. First of all the payments are made by Sarnia,

Ontario, and they are charged entirely to the North West Company. I, as accountant for the North West Company, I split them on an arbitrary basis as between the Companies.

THE CHAIRMAN: That is all on the record. You may not have been here. Certainly not assisting the Commission to the extent you are now, but it was all gone into by Mr. Burns many weeks ago. It seems many weeks.

Q MR. PLOTKINS: You do not believe the parent company, the Standard Oil of New Jersey, could assist this Commission and complete accurately the information that they would require to be added to the last statement, and thereby give the full cost figures?

A No, I am very sure that they could not. I know how hard the accountants have worked, and I know the very tangible problems they were faced with.

THE CHAIRMAN: What Mr. Plotkins says, as I understand it, is very simple. He says in the light of their experience with many companies in the different branches of the industry could they say "Well a fair allocation would be such a percentage to the Pipe Line for Indirect Costs."

A I have never heard of any such percentage.

THE CHAIRMAN: That is your answer, Mr. Plotkins.

Q MR. PLOTKINS: You have introduced today two exhibits in the form of accounting procedure. I understand that is in regard to Balance Sheets, Capital Accounts?

A No, Income Statements, for the preparation of Balance

Sheet and Income Statements.

Q It relates mostly to Balance Sheet items?

A Balance Sheet and Income Statements. They are combined.

Q Does it cover Operating Accounting procedure?

A It gives the titles to be used for to make the accounting uniform throughout the whole organization.

Q Including Operating?

A Yes, including Operating. It gives the names of the accounts.

THE CHAIRMAN: Any other questions?

Q MR.HARVIE: Mr. Burns, I understand that you expressed this as your opinion that the Pipe Line operations could and must be and are being carried on more economically as a unit of the Royalite than they would be as an entirely separate entity?

A I have given that opinion, but I qualified it that at this time I could not give any tangible reasons provided that it remained within the Royalite corporate entity. I mean if it was divorced from that it would be necessary to I suppose, provide completely new administrative assets.

Q I am suggesting that I agree with that policy, that situation?

A Yes.

Q It is just to get down to the point that an apparent difficulty is arriving at the proper allocation of Indirect Costs as between that Department and the other Departments of the Company?

A That has been a difficulty.

Q And that same difficulty would arise whether it was a department or a subsidiary compeny we will say, sharing

the same services?

A Yes. Certain going rates could be established, however, I believe, for all services. That is you could set a rate - and it could be approved by the Board of Directors if necessary - which would be the rates at which this Department would be administered, and you could also.- the Royalite would agree to do the accounting for this Pipe Line Division.

Q I understand there were two different sets of allocations, one set up by the Commission accountants, and one by the Company's accountants, as I understand?

A That is correct.

Q I understand there are a great many other arbitrary ways of arriving at that allocation?

A That is correct, there are other arbitrary ways.

Q Supposing that the evidence before this Board, this Commission, if they came to the conclusion, we will say, either the Commission accountant's suggestions or the Company's accountants' suggestions or some other method was decided as being the fair and proper one under the circumstances, and they directed how they thought those allocations should be made, would there be any difficulty in your Company carrying them out in the future?

A Another accountant? Well it would depend on - if I was actually going to do the accounting I expect I would have something to say about it.

THE CHAIRMAN: That is reasonable.

Q MR.HARVIE: What I am getting at is this, the situation is this, that the Commission are now considering or recommending or arriving at a

rate from the situation as it now is and looking to the future. One difficulty that they have met is....

THE CHAIRMAN: Please do not assume about the Commission. You have assumed everything else under the sum, but do not assume what the Commission is going to do.

Q MR. HARVIE: Assuming that there is some basis of allocation of Indirect Costs arrived at in the future, be it on the recommendation of this Commission or otherwise, would there be any difficulty in carrying that allocation out? As far as the future operations of the Company are concerned in respect to the Pipe Line Department.

A No. I think though that if any rate were to be set it would be far better to fix a charge rather than an allocation of something which is unknown. It would be better to say for this service we will charge $1000.00.

Q You would rather do it on a flat rate rather than on a percentage basis?

A I would.

Q THE CHAIRMAN: If you had a separate legal entity that shared an asset with you there would be no doubt each paid a certain sum to the other for the service ir received?

A Yes.

Q And if you could within the company equally segregate it as a department it would be the same thing?

A Yes.

Q There is nothing impractical about making a complete severance, whether as a separate department or as a

separate legal entity?

A I can see nothing impractical about it. There may be some advantages. Subject to that possible question of Income Tax that I mentioned.

Q In order to have a regulatory body dealing with it, it would be absolutely essential would it not, Mr. Burns?

A It would be essential, yes. It would have to be done.

Q You could not go through this every time there was a question of a new rate?

A No.

Q MR. COMMISSIONER LIPSETT: Would you think fixing a charge like that, Mr. Burns, that it should be some fixed charge irrespective of whether the through put of the line went up or down? Supposing the through put halved, or supposing it doubled? Would it have to be still the same percentage?

A That would depend on what utility you were using. If it was a question of steam and you had a stand-by equipment there ready to supply it, and you had sufficient steam generating equipment to generate the maximum requirements, I cannot see it would make much difference. In my opinion it should be charged irrespective of whether the steam was actually used or not.

Q The charge you think would be the same, say on the present through put today, irrespective of whether that goes up or down?

A Well if it went up I suppose there would be more required. You would have to set a minimum or some maximum. All these factors would have to be considered in arriving at the charge which you were to make, for the particular

utility which was going to serve the Pipe Line Department.

Q It would not seem practical then, or would it, to say take last year's figure and arrive at some bulk sum for all those services and leave that as a standing figure?

A Undoubtedly the past history would be a governing factor in arriving at any conclusion. But also....that is particularly with regard to expense. Also you would have to look to the future and estimate what you intended to do.

Q If that had to be done would it have to be done on some sort of a sliding scale. Would you get back to the old question that would be allocated on revenue or a decreased or increased through put?

A Well, the power companies have sliding scales, yes. If we consume a certain amount of power we pay a certain rate. We pay a minimum rate regardless of whether we take any power or not from the Calgary Power, serving some of these pump line stations. Then if we exceed a certain amount we get a reduction in rate.

Q Have you any sort of a basis that you have thought of at all, Mr. Burns, in case that idea of separating the pipe line from the rest of the Royalite was thought to be practical and recommended?

A No, I have not considered such a thing.

MR. FRAWLEY: That is all, Mr. Burns, thanks. We are making some progress on the Montana pipe line situation. Mr. Nolan now has a telegram

from Mr. LeSueur, dated today.

THE CHAIRMAN: Which pipe line was this?

MR. FRAWLEY: That is the Imperial owned pipe line in Northern Montana. That would be the Transit & Storage pipe line and the Montana Pipe Line Company. My friend and I seem to think that they would both be covered by this telegram.

MR. NOLAN: There is only the one line.

MR. FRAWLEY: Yes.

THE CHAIRMAN: Only one line?

MR. FRAWLEY: That could be either the Transit & Storage or the Montana Pipe Line Company. That seems to be so.

THE CHAIRMAN: Is it not a fact that the Transit & Storage bought the Montana Pipe Line Company?

MR. NOLAN: Yes.

MR. FRAWLEY: So it is the same one?

MR. NOLAN: That is right, sir. It was first called the Montana Pipe Line, and then it was purchased by the Transit & Storage Company and sold by them. But it is the one line. It is called the Montana on the map which was marked this morning.

Q MR. FRAWLEY: "ReTel fourteenth Montana Pipelines owned formerly by Transit and Storage Company from Oilmont through Sunburst to International Boundary at Coutts and from Red Coulee field to International Boundary near Coutts was sold September 1938 in conformity with our policy of using Canadian crude wherever possible (stop) Charts and evidence McGrath

"re Regina were based upon all rail movements crude from Cutbank Station to Regina."

DOCUMENT IN QUESTION IS NOW MARKED EXHIBIT "192".

THE CHAIRMAN: That is sold?

MR. FRAWLEY: That is sold.

THE CHAIRMAN: That does not help us to know whether it is a line carrying oil at all. You just know the Imperial does not own it. I wonder if that could be ascertained.

MR. NOLAN: Now Mr. Plotkins has the name of the purchaser in one of these Montana papers.

MR. PLOTKINS: I can furnish the name of the purchaser. I am also informed that as is usual when the Imperial Oil Company.....

MR.NOLAN: Just state the facts and do not argue about it.

MR. PLOTKINS: Sells a line they impose a condition that the line be dismantled, and not be used and the purchaser now, I do not know what he is going to do about it, the purchaser is - I can give it to Commission Counsel in a few minutes.

THE CHAIRMAN: Well Mr. Nolan, I hate to ask you to do more things. You have done many. But I mean if that last statement is the fact you need not bother checking up any more. If it is sold on the condition it be dismantled. I mean like everyone else I am getting a little impatient with this mystery in Montana, and we should take the trouble to get it straightened out. What do you suggest, Mr. Frawley?

MR. FRAWLEY: I think on that one matter

if we had a wire from Mr. LeSueur confirming - well if he did not confirm this last suggestion then we would not have advanced very much. But perhaps we had better try and find out who the purchaser is and I will undertake to get a statement from him as to whether that pipe line is available.

THE CHAIRMAN: I would like to have that information is possible. Perhaps Mr. Nolan might not mind approaching it from both angles, He could inquire from Mr. LeSueur if it be the fact it was sold on the condition that it be dismantled. That is one thing. You, Mr. Frawley, could make inquiries at your end. I am hopeful that we should not have to sit a day or so longer to find out a matter that might not loom very large in the main anyway.

MR. PLOTKINS: I may add, to help Mr. Nolan, that the condition that it be dismantled applies only to the trunk line from Sunburst to the border, and it does not apply to the gathering system.

MR. FRAWLEY: We will find out all we can about it.

THE CHAIRMAN: And clean it off our list. We have spent so much time on it already, I do not feel disposed to leave it up in the air in the end.

MR. FRAWLEY: I will call Mr. Cottle to clear up a matter we started to discuss this morning.

THE CHAIRMAN: With respect to the matters that are coming in connection with the Imperial, did you get that book of subsidiaries?

MR. FRAWLEY: No. Mr. Nolan, I do not

think has undertaken or expects to do more than supply information with respect to the Humble Company.

THE CHAIRMAN: That is done. Mr. Nolan so informed us. But I suggested that either one of you would put it in. It was asked for by someone, Mr. Plotkins or someone. If there is such a book in print all right, and if there is not, all right.

MR.NOLAN: We have them available for the Canadian companies, but this is an American company and it is more difficult for us to put our hands on one.

MR. FRAWLEY: There wa a statement with regard to the subsidiaries appearing in the International Petroleum News, and we will look through the 1936 file and the 1937 file and see if we can find them.

MR. PLOTKINS: I have already looked through the 1937 and I am sure it is not in that.

.....

F. G. COTTLE, recalled:

Q BY MR. FRAWLEY: Now, Mr. Cottle, I have given you Exhibit "180" (a), (b), (c) and (d). Will you please mark in blue, I think that will be helpful if it is done - I think they are already marked in blue?

A Yes.

Q These rates.

THE CHAIRMAN: What is this?

MR. FRAWLEY: These are the freight rates. I started to indicate the pages in the exhibit for the convenience of the Commission, and Mr. Cottle has already

done this in blue pencil. We will read it into the record where these marks are. Now tell me where the freight rate on crude oil from Calgary to Moose Jaw and Regina is?

A In Exhibit "180(d)" on page 3.

Q You have ticked it off in blue?

A There is a marginal item number 33(c) and the rate from Calgary to Moose Jaw is ticked and is underlined in blue, being 18½ cents per 100 pounds.

Q And to Regina?

A Is underlined in blue and is 19 cents per 100 pounds.

Q Now where is the crude rate from Calgary to Winnipeg to be found, and other points in Western Canada?

A On the same page of Exhibit "180 (d)" under the item 32(h).

Q All right, that has been marked?

A It has been marked and it is 39 cents a hundred.

Q Why do they appear under separate classifications, the freight rate on crude from Calgary to Moose Jaw and Regina under one classification and the rate on crude oil from Calgary to other points in Western Canada under a separate classification

A They are separate classifications of the tariff. Are you asking me why the railways made these special rates?

Q That is the answer. A special rate was made for the crude moving from Calgary to Moose Jaw and Regina.

A That is right.

Q And the other rates are the rates which were in the existing tariffs, and no special rate having been made.

A It is also a special rate, Mr. Frawley, but for a different reason.

Q But they have separate classifications?

A Yes.

Q The rate now on gasoline or refined petroleum products from Regina and Moose Jaw to Winnipeg?

A As appears on page 8 of Exhibit "182 (B)".

Q Are they ticked in blue poncil?

A I have circled the three rates in blue pencil. They appear opposite "Index Number 2, Winnipeg."

Q The only thing that is ticked off in blue on that page?

A Yes.

Q Next the rate on gasoline from the Lake head to Winnipeg, in Exhibit "180(a)"?

A That appears in Exhibit "180(a)" on page 16 opposite the item 200 in Column "A", and the rate is circled. It is 50 cents per 100 pounds from the lake head to Winnipeg.

Q Rate on gasoline from the lake head to Regina?

A That rate appears on page 30 of the same exhibit, opposite Index Number 1655 in Column "A". The rate is circled, and is 98 cents per 100 pounds.

Q The rate on refined petroleum products from Regina to the lake head?

A From Regina to the lake head also appears on Page 30 opposite the item 1655 and in Column Class 5, and it is circled, and it is 98 cents per 100 pounds.

Q All of these rates are already in evidence the other day. Here is one from Winnipeg to Fort William that the Chairman asked for this morning. Where do you find that?

A The rate from Winnipeg to Fort William appears on Page 16 of Exhibit "180 (a)" opposite Index number 200, and in Column Class 5. It is 57 cents, and is circled in blue.

Q Just go back to the rate so we will have it to compare with, the rate of refined petroleum products from the lake head to Winnipeg?

A From the lake head to Winnipeg is 50 cents, and appears on the same line under Column "A".

Q So that is 50 cents as against 57 cents for the same distance in the opposite direction?

A That is right.

Q Will you go to the Exhibit "182" that we were discussing this morning. Have you some copies of those?

A Yes, they have all been distributed.

Q Now when we left off this morning in the discussion of this Exhibit "182", the question arose as to the 1938 experience as between the trucking of this crude from Turner Valley to Calgary as against the pipe line movement. Will you just tell us what you want to say about this Exhibit "182" both with respect to the 1938 situation, and the 1939 situation as you see it.

A Exhibit "182" shows the total purchases of crude oil by the refiners other than the Imperial Oil and the British American Oil Company Limited in Western Canada, and the total purchases amounted to 772,774 barrels, of which 508,881 barrels were purchased by people who could have used the pipe line, namely by refiners who were not located in Turner Valley. Of that quantity of oil I have ascertained that 309,259

barrels were transported to Calgary over the Royalite pipe line. That is an average of 837 barrels per day. The balance, which amounts to 199,622 barrels was trucked from Turner Valley to Calgary. Of the 199,622 barrels which were trucked to Calgary, 159,159 barrels were trucked by or on behalf of Gas & Oil Products.

Q That is a Calgary company?

A That is a Calgary company. This product was trucked to Calgary for re-shipment to a number of other refineries appearing on Exhibit "182". 23,811 barrels of the 199,622 were also trucked from Turner Valley to Calgary by or on behalf of the Anglo-Canadian Oil Company - pardon me they were trucked to Okotoks on behalf of the Anglo-Canadian Oil Company Limited for re-shipment to Brandon. 11,315 barrels of crude oil were transported to Calgary by or on behalf of the Lion Oils Limited for re-shipment to other refineries or for consumption in the Lion Oil Refinery. 3,474 barrels were purchased in the Valley by Hydro-Pete Oils Limited, as were 1,863 barrels by Monarch Refineries Limited. This barrelage was trucked directly from the Valley to the refineries of these companies represented. I may explain why that large barrelage was trucked in the year 1938. The Anglo-Canadian Oil Company trucked 23,811 barrels as I have stated. That quantity of oil was trucked from the Spy Hill well in the early part of the year 1938 and represented the total production of the Spy Hill well, which was being produced under open flow conditions at that time. The Anglo-Canadian Company had a refinery at Brandon which was capable of using all of the production

from this well, and hence that Company trucked this oil to Okotoks for re-shipment to that refinery, because as I understand the pipe line would not carry oil of a well which was produced in excess of its pro-rated pipe line allowable. Under the present conditions, which were not in effect at that time, no well would be allowed to produce more than a fixed allowable, and it is my opinion that had the present conditions been in effect at that time, none of that oil would have been trucked to Okotoks by the Anglo-Canadian Company. They would have availed themselves of the services of the pipe line, which they have done ever since. Now Gas & Oil Products trucked 159,159 barrels for similar reasons to those I have stated in respect of the Anglo-Canadian Oil Company. Gas & Oil Products Company purchased crude oil from several wells - three I think to be exact - in Turner Valley, which wells prior to the first order of the Conservation Board were being produced at capacity, whereas all the wells connected with the pipe line or delivering to the pipe line were complying with the pipe line pro-ration allowables in effect at that time. Hence it was necessary for Gas & Oil Products in order to deliver all of the production which they purchased from these particular wells to truck that oil to Calgary as the pipe line adopted the policy of transporting only the oil produced within their allowables. Upon the issuance of the Conservation Board's orders on September 2nd, several wells continued to produce oil in excess of the Board's order. Subsequently a new Conservation Act was enacted and the order of the

F.G.Cottle.

the Board were never actually enforced. Hence much of the oil which was trucked to Calgary since the issuance of the Conservation Board's orders was oil produced in excess of the allowables of the Conservation Board order. The Conservation Board's orders are now being complied with, and enforced and in my opinion had the Conservation Board's orders been in effect during the entire year 1938, and enforced during the entire year 1938, no oil would have been transported to Calgary from Turner Valley by Gas & Oil Products by truck. That Company has said to me that that would have been the case.

(Go to Page 4619).

WITNESS: The next largest item of 11,315 barrels transported to Calgary by Lion Oils, I am also confident would have been transported by the pipeline had conservation orders been in effect and complied with.

MR. NOLAN: That is not what Mr. Plotkins said, he said when his trucks were not needed for anything else it was economical for him to use them for this purpose for transporting from the Valley to Calgary.

A Perhaps, I can explain that, Mr. Nolan. At that time the Lion Oils was purchasing all of the production of the Sunburst well and was purchasing production in excess of the allowable of the Sunburst well. It was, therefore, possible for arrangements to be made with the Sunburst well whereby that well would assume the transportation cost.

MR. NOLAN: Oh, I see.

A That condition no longer exists.

Q MR. PLOTKINS: Is that absolutely correct, Mr. Cottle, to your knowledge?

A That is my understanding.

Q Well, I dispute your understanding, I have no power to order the Sunburst Company to exceed the allowable and to my knowledge they have always acceded to the Board's order, the trust company refused to do otherwise?

A Oh, I will say that the Sunburst well did not at all times comply with pro-ration orders which were in effect, if that is what you asked me was correct.

Q They did not, is that what you say?

A At all times they did not.

Q Well, I am trying to help you to carry on your explanation, you say that our company trucked 11,000 barrels, I find our figures are 64,500 barrels, and there is a wide discrepancy?

A I say that the Lion Oils purchased crude oil, this is only crude oil from oil wells, I am not confusing crude oil from naphtha wells or naphtha from naphtha wells, 72,025 barrels of oil including purchases from Imperial Oil Limited, of which the pipeline advised me they delivered to Lion Oils 63,710 barrels, leaving 11,315 barrels trucked from Turner Valley. That does not include crude oil from the so-called gas wells.

Q Yes, the pipeline figure is substantially correct. The balance figure is incorrect, according to our records.

A Well, this is according to the records of the Conservation Board, which accounts for all of the production from all of the wells in Turner Valley.

Q THE CHAIRMAN: Go on?

A The next item to be dealt with, Hydro Pete Oil, 3,474 barrels; Monarch Refineries, 1863 barrels. I would assume that that barrelage would almost all be trucked practically from Turner Valley, that item, those two items total 5300 barrels out of 199,622 barrels.

Now, to sum up what I have to say concerning the large amount of crude oil which was trucked last year, it is my opinion that had the present conditions of Conservation Board pro-ration been in effect during the whole of 1938, which I assume will be the case in 1939, it is my opinion that practically all of the 508,881 barrels shown on Exhibit "182" would have been transported to Calgary through the pipeline.

THE CHAIRMAN: Is that all?

MR. FRAWLEY: That is all you have to say about "182"?

A Yes.

Q THE CHAIRMAN: That is all for to-night, Mr. Cottle. Mr. Harvie.

MR. FRAWLEY: Mr. Harvie has to file some things in accordance with the note which I made last evening, a list of the British American shareholders, the working papers behind Mr. Woolley's map, a rough estimate by the British American as to the required cut to be made in Turner Valley crude to exclude Texas crude; a statement with regard to the Illinois pipeline which we are still working on and a statement with respect to the Transit and Storage and the Montana Pipe Line, which we just spoke of,

THE CHAIRMAN: How are you coming along, Mr. Harvie?

MR. HARVIE: The last two items I am not doing anything about, I understood Mr. Nolan and Mr. Frawley were working on that.

THE CHAIRMAN: You have given us all that you have as to the pipeline?

MR. HARVIE: So far as the others are concerned, I have a wire with respect to the rough estimate, I believe it is being confimmed by air mail, which I think should be in in the morning, and it would be more complete, so if we sit to-morrow you might allow me to make a more complete statement to-morrow.

THE CHAIRMAN: We are sitting to-morrow but we want to get all these things cleaned up.

MR. HARVIE: I think it would be more complete by air mail, but I have this here if you wish it.

THE CHAIRMAN: Working papers behind your map?

MR. HARVIE: It is also ready and leaving by air mail from Toronto, and will be given to Mr. Cottle immediately they arrive. The list of shareholders with a statement, I believe, in connection with it in the form of an affidavit or declaration has left Toronto by air mail, I understand, and should also be here to-morrow. That disposes of all items that I have been asked to get information on.

THE CHAIRMAN: Well, all right, Mr. Harvie, we will see what to-morrow brings forth. There is no use of getting these working papers after we have retired from our public Hearing.

MR. HARVIE: As I understood, those are not to be submitted to the Commission at all.

THE CHAIRMAN: Those were the ones for Mr. Cottle?

MR. HARVIE: Yes.

THE CHAIRMAN: Probably that is right, but was not Mr. Cottle then to return to speak to the Commission officially about them?

MR. NOLAN: Oh, not at this stage, only after examination in the next phase.

THE CHAIRMAN: Is that correct?

MR. FRAWLEY: Yes; you see, Mr. McGrath is in exactly the same position.

THE CHAIRMAN: I want to be clear, that is not, the examination you are to make had no bearing upon the matters which we will be considering when we retire at this time.

MR. COTTLE: No, Mr. Chairman, that is as I understand.

MR. FRAWLEY: That is right.

THE CHAIRMAN: I was quite wrong in my impression, Mr. Harvie, and that will be all right. The others you expect to have to-morrow?

MR. HARVIE: Yes.

THE CHAIRMAN: That appears to clean it up pretty well, outside of this pipeline end, and Mr. Nolan's progress with the Lion Oils.

MR. FRAWLEY: Yes. There is that, of course, which might mean a couple of days.

THE CHAIRMAN: Well, it is immaterial, so long as we are told before we rise. If this is not going to be, if this is a matter that has to be dealt with by us in our report you, of course, must give Mr. Plotkins an opportunity of saying what he has to say about Mr. Coultis' latest proposal as contained in the Exhibit which was filed. If it is disposed of by private treaty there is no occasion for taking up time in the hearing of evidence nor for the taking of any time in dealing with it in our report, that is all, so as we are near the end I am mentioning these things each night.

MR. FRAWLEY: Of course, Mr. Maw has to be called.

THE CHAIRMAN: Yes, and Mr. Morrison. There is no good of mentioning it to-morrow night if we are going to finish with the witnesses to-morrow, so I mention it to-night in order that it may be thought about. We will now adjourn.

(The Inquiry was here adjourned to be resumed at 10:30 a. m. February 16th.)

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